SAN FRANCISCO PUBLIC LIBRARY
3 1223 07169 2066

FISCAL FUTURE
PART 1

REVENUES AND
TURES

ISCO
OMMISSION
MENDATIONS

L12

ancisco Public Library

ernment Information Center
Francisco Public Library
Larkin Street, 5th Floor
Francisco, CA 94102

ERENCE BOOK

be taken from the Library

SEP 8 1978

DOCUMENTS DEPT.
S.F. PUBLIC LIBRARY

D
REF
371.206
Sa579f

#8 Pt. 1
c. 3

FISCAL FUTURE
PART 1

REVENUES AND EXPENDITURES

SAN FRANCISCO
PUBLIC SCHOOLS COMMISSION
REPORT AND RECOMMENDATIONS

SEP 8 1978

DOCUMENTS DEPT.
S.F. PUBLIC LIBRARY

The San Francisco Public Schools Commission was formed in January 1975 as a cooperative effort by the Board of Education of the San Francisco Unified School District and the State Superintendent of Public Instruction. The general objectives of the Commission are to identify problems in the School District and to assist in implementing agreed-upon solutions. The Commission is supported through grants from the San Francisco Foundation, the Ford Foundation, the Irwin Foundation, the Gerbode Foundation, and the San Francisco Unified School District.

COMMISSION MEMBERS:

Mrs. Bernice Brown
Mr. Lewis H. Butler
Mrs. Ruth Chance
Mrs. Caroline Charles
Mr. John Crowley
Dr. Roberta Fenlon
Mr. R. Gwin Follis
Mr. James Frankel
Mr. Herman Gallegos
Mr. Louis Garcia
Mr. James R. Herman
Ms. Aileen C. Hernandez
Dr. Asa Hilliard
Mr. Jerome Hull
Mr. Fritz Jewett
Mr. Robert Kirkwood
Rev. Donald Kuhn
The Hon. Harry Low
Mrs. Leslie Luttgens
Mr. Thomas J. Mellon, Jr.
Mr. Einar Mohn
Father Antonio Rey
Mr. William M. Roth (Chairman)
Mr. Yori Wada

Dr. Luvern L. Cunningham, Executive Director

REPORT
AND
RECOMMENDATIONS

THE FISCAL FUTURE OF SAN FRANCISCO PUBLIC SCHOOLS
Part I: Expenditures and Revenues

---

prepared for

THE SAN FRANCISCO PUBLIC SCHOOLS COMMISSION

February 17, 1976

This Report is based on a staff paper
prepared for the Commission by:

James W. Guthrie
Walter I. Garms
Kristin Anton

SAN FRANCISCO PUBLIC SCHOOLS COMMISSION
785 MARKET STREET, ROOM 902, SAN FRANCISCO 94103
TELEPHONE (415) 495-0870

MR. WILLIAM M. ROTH
Chairman

DR. LUVERN L. CUNNINGHAM
Executive Director

February 17, 1976

Dr. Lee S. Dolson
President, Board of Education
San Francisco Unified School District
135 Van Ness Avenue
San Francisco, California 94102

Dear Dr. Dolson:

This report is a re-publication of a staff paper which was formally approved by the Commission on September 24 and transmitted to the Board of Education on September 26, 1975.

The projections presented in this report point up the alarming probability that the School District will face a $31 million shortfall by 1980, if current revenue and expenditure patterns persist. Although there are a variety of techniques for making such projections, it appears clear that a shortfall is imminent. To head off a financial crisis, and the abrupt remedies it will necessitate, the Board of Education must undertake affirmative actions to contain expenditures while maximizing potential revenues.

The Commission's analysis and recommendations regarding state school finance plans and strategies were transmitted to the Board on January 8, 1976, as Part II of its work on the District's fiscal future. Part III, now in preparation, will examine alternative ways of reducing expenditures and recommend certain internal reforms to bring costs in line with expected revenues.

Please note that since the time these projections were made, the State Legislature has enacted Senate Bill 220. This legislation adds slightly to the available revenues for San Francisco. A calculation of the consequences of S.B. 220 is shown in the Appendix.

It is the Commission's hope that this kind of fiscal information will be made regularly available to the Board of Education and the general public through an improved capacity to produce such data in the District's administrative office. Responsible planning and policy decisions depend on a thorough understanding of the District's fiscal future.

Sincerely,

William M. Roth
Chairman

TABLE OF CONTENTS

Page

Summary 1

Introduction 1

Past Expenditure Patterns 2

Expenditure Projections 3

Future Expenditures and Revenues Compared . . 5

Implications 6

Conclusions 7

Appendix 8

SUMMARY

This Report projects future San Francisco Public School expenditures (1976-77 to 1979-80) and compares them with estimates of future revenues. The analysis demonstrates that if San Francisco School District expenditures continue to grow at their past rate, there will be an approximate $31 million shortfall by the 1979-80 school year.

The clearcut implication is that School District officials should begin immediately to make a number of plans to reduce costs. If such reductions take place in proportion to declining enrollment, then there is a modest possibility that San Francisco's schools can maintain their present level of service.

Because of declining enrollment, District income per pupil may grow at a pace which matches past rates of per pupil expenditure increases. However, this possible "match" between future per pupil revenues and projected expenditures will leave little or no room for improvements in the level of services offered. At best, San Francisco's schools can anticipate a "steady state" with regard to services.

INTRODUCTION

Predicting the future actions of an organization as large and complicated as the San Francisco Unified School District is a risky undertaking. School costs are subject to general economic and demographic conditions. The Governor and state legislature by their actions can exert an awesome influence over the behavior of a school district. This is particularly the case in California where it is highly probable that the entire state's school finance plan will be revised by 1980 in order to comply with the judicial decision in Serrano vs. Priest. Moreover, the advent of a new collective bargaining bill for Calfornia school employees may inject another element of uncertainity into the fiscal future of local school districts. The "crystal ball" is made even more hazy by the fact that the direction of a school district resides heavily in the hands of elected representatives. Political climates clearly can change and a school district's financial conditions may be altered accordingly.

Nevertheless, a public institution such as a school district has the responsibility to attempt to understand the course of its future environment. The lives and livelihood of thousands of children and adults will be affected by School District decisions taken today. A knowledge of likely future events, even considering the many uncertainties involved, may enable school district officials to make more appropriate decisions than would otherwise be the case. This Report is intended to aid such decisions by providing a reasoned view of San Francisco's financial conditions between 1975 and 1980.

Past Expenditure Patterns

As has been the case with the overwhelming majority of school districts in the United States, San Francisco's schools have experienced a steady increase in expenses over the past five years. In the 1970-71 school year, operating outlays were almost $127 million. The equivalent figure for the 1975-76 school year is budgeted as approximately $161 million: a $34 million, or almost 25%, increase in five years. Total San Francisco Unified School District expenditures from 1970-71 to 1975-76 are listed in table I below. These figures are also displayed graphically in Figure I in the Appendix.

TABLE I

Total SFUSD Expenditures: 1970-71 to 1975-76

Year	Expenditures	Dollar Difference	%
1970-71	$126,759,802		
1971-72	128,748,741	$1,988,940	1.57
1972-73	134,069,220	5,320,480	4.13
1973-74	144,819,922	10,750,700	8.02
1974-75	157,350,810	12,530,890	8.65
1975-76	160,811,359	3,460,550	2.20

Figures for years 1970-71 through 1973-74 were obtained from annual reports of the California State Controller. Figures for the subsequent two school years are budgeted dollars, not audited expenditures, obtained from San Francisco Unified School District budget documents. (Controller report figures were not available at the time of writing.) The dollar amounts represent total current operating expenditures. Capital outlay and debt service costs are excluded.

Expenditure increases have occurred despite the fact that the number of students attending San Francisco's public schools has been declining. The combination of increasing costs and decreasing attendance has resulted in a substantially expanded annual total operating expenditure per pupil. Total expenditures have increased more than $750 per pupil from 1970-71 to 1975-76. This represents an increase of almost 50 percent over five years. A more complete picture of per pupil expenditure increases is provided in Table II. These same figures are displayed graphically in Figure II.

TABLE II

SFUSD Total Expenditures Per Pupil: 1970-71 to 1975-76*

Year	Total Expenditures	ADA**	Expenditures/ADA
1970-71	$126,759,802	80,558	$1,573.52
1971-72	128,748,741	76,971	1,672,69
1972-73	134,069,220	75,893	1,766.56
1973-74	144,819,922	69,986	2,069.27
1974-75	157,350,810	70,204	2,241.34
1975-76	160,811,359	69,081***	2,327.87

*The dollar figures in this table are the equivalent of and derived from the same sources as those in Table I.

**Average Daily Attendance (ADA) is the average number of students actually in attendance each school day. As such, it typically is a lower figure than School District enrollment. ADA is used by the State for purposes of calculating School District financial aid.

***The ADA figure for 1975-76 is an estimate.

Expenditure Projections

Projecting future expenditures based on past dollar outlays assumes that former forces will continue to operate and will influence School District decisions in similar ways in the future. Clearly, such an assumption must be held with caution. Nevertheless, there is no other reasonable way to arrive at such projections.

There are two techniques available for projecting expenditures. One is to calculate past average annual percentage increases and compound that rate of increase for the future. The second method involves calculating the past average annual actual dollar increase and repeatedly adding that figure for each future year. We reject the first method because it appears unlikely that the general economy and new state school finance legislation will long permit continued school costs increases at the same rate as has been the case in the past. Specifically, we seriously doubt that circumstances will enable San Francisco to continue its overall expenditures an average of five percent per year. (If such a rate were to continue, the slope of expenditure increase would appear as shown in Figure III.)

The second strategy considers an actual dollar increase calculation from year to year. Since 1970-71 the average annual dollar increase for the San Francisco Unified School District has been $6,810,312. When this amount is added to 1979-80, total school operating expenses are projected to be $188,052,607. This is more than a $27 million increase from the approximate $161 million the School Board budgeted for 1975-76. We view these as our "best estimate" of total district expenditures. They are derived from a five-year average of past expenditure increments.

In addition to these estimates, however, we have calculated a "high" and "low" estimate. They are derived by taking an average of the three highest yearly past increases and an average of the three lowest past year increases. The "low" projection envisions San Francisco's schools spending a total of $175 million in 1979-80. The "high" estimate for the same year is approximately $200 million. All three lines of projection are listed in Table III and displayed graphically in Figure I.

TABLE III

Projections of SFUSD Total Current Operating Expenditures, 1976-77 — 1979-80*

Year	'"Best Estimate"	"High"	"Low"
1976-77	$167,621,671	$170,345,380	$164,401,350
1977-78	174,431,983	179,879,400	167,991,340
1978-79	181,242,295	189,413,420	171,581,330
1979-80	188,052,607	198,947,440	175,171,320
Average Annual Increase	$ 6,810,312	$ 9,534,023	$ 3,589,990

*Total current operating expenditures include all general funds, children's centers, county school services fund, cafeteria fund, state and federal categorical funds, and handicapped minors fund. It does not include funds for debt service or capital outlay.

A total District expenditure may be misleading if enrollment decline is sufficiently steep. Consequently, in order to understand better the future relationship between enrollments and projected expenditures, we have attempted to project expenditures per ADA for the years 1976-77 to 1979-80. Here again, there is provided a "best estimate" and a "high" and "low" projection. These are calculated in the same manner as was done for the entire District projections of "high" and "low" expenditures.

Our best estimate envisions San Francisco's per pupil expenditures climbing almost $450 between 1976-77 and 1979-80. Comparable figures for the "high" and "low" estimates are $570 per pupil and $280 per pupil. These amounts are shown in detail in Table IV and displayed graphically in Figure II.

TABLE IV
Projections Per ADA of Total Current SFUSD Operating Expenditures

Year	"Best Estimate"	"High"	"Low"
1976-77	$2,478.74	$2,519.19	$2,421.06
1977-78	2,629.61	2,710.51	2,514.25
1978-79	2,780.48	2,907.83	2,607.44
1979-80	2,931.35	3,093.15	2,700.63

There are six special expenditure categories. These six categories, along with general funds, comprise the "total current operating expenditures" we have already described. These funds are relatively small, but they are nevertheless important to the operation of the School District. We do not describe them here in detail, but the projections for each of these expenditure categories appear in the Appendix. The categories are as follows: Federal and State Categorical Aid, County General Education Fund, County School Services Fund, Children Center Funds, Development Center Funds, and the Cafeteria Fund.

Future Expenditures and Future Revenues Compared

A comparison of projected expenditures and revenues for the entire School District reveals that San Francisco faces the large risk in future years of running short of income. The shortfall in the 1976-77 school year is likely to be of the order of magnitude of $15.5 million. By the 1979-80 school year this gap is likely to increase to approximately $31 million. Even when an optimistic basis is employed for comparative purposes, our "low estimate" of expenditures with "high estimate" of revenues, the predicted shortfall is more than $12 million in 1976-77 and increases to more than $18 million by 1979-80. These figures are listed in Tables V and VI and displayed graphically in Figures IV and V, in the Appendix.

When expenditures and revenues are compared on a per pupil basis, the income shortfall is less dramatic. This, of course, is a consequence of the predicted decline in enrollment. Income is likely to shrink, but the pupil population is likely to decrease even more rapidly. The outcome is that per pupil revenues are not drastically short. For example, a comparison of our "best estimate" of per pupil expenditures with the "high estimate" of revenues reveals a shortage of only $98.00 in 1976-77. This shortfall would grow to $149.00 per pupil by 1979-80.

If one takes a considerably more optimistic view, it is remotely possible that future District revenues might nearly match predicted per pupil expenditures.

When our "low estimate" of per pupil expenditures is compared with the "high estimate" of revenue there is only a $40.00 projected shortfall in 1976-77. By 1979-80, projected per pupil revenues exceed predicted expenditures by $81.00 per pupil. It should be kept in mind, however, that "low" expenditure predictions fit the "highest" revenue projections is a particularly generous basis of comparison. These per pupil comparisons are listed in Tables VII and VIII and displayed graphically in Figures VI and VII.

Implications

The foregoing discussion of future income and expenses reveals the high probability that the San Francisco Unified School District can no longer expect to maintain its past rate of spending increases. The interaction of declining enrollment and judicial and legislative efforts to equalize school financing will slow the growth of total revenues. The implications of this condition are manifold. Itemized below are several dimensions which quite probably will be effected by a revenue shortfall.

Personnel

The San Francisco Unified School District spends the overwhelming portion, (approximately 80%) of its income on salaries and fringe benefits for employees. Consequently, it may be that some reduction in personnel costs will be necessary in order to stay within the boundaries of available income. If this proves to be the case, then the School Board should begin to examine options such as (1) a continued freeze on hiring, (2) the design of an early retirement plan, (3) incentives for teachers to share work, (4) increased inservice training so as to maximize the ability to transfer individuals already on the payroll, and (5) if all else fails, the use of so-called "reductions in force".

Increasing Efficiency

Almost any organization of the size of the San Francisco Unified School District contains within it some measure of inefficiency. With sustained efforts to identify areas of cost savings, the San Francisco Unified School District can derive greater benefits from whatever level of revenue is available to it. For example, the Board of Education should examine operations such as purchasing and warehousing to assess possible economies. Similarly, the School District should assess the educational and economic trade-offs involved with closing small schools and using more instructional technology.

Program Economies

In addition to areas such as business and plant operation, economies may reside on the instructional side of the ledger. For example, students who, at age sixteen, pass the new state high school proficiency examination may be made eligible for early graduation. Students who now spend their senior year in high school might be permitted early entrance to the freshman year at San Francisco City College or a four year institution. Perhaps the School District-operated children's centers (preschools for three and four year olds) could more efficiently be operated on contract by responsible civic, community or church organizations. The above ideas are intended only as illustrations of program areas worthy of close scrutiny in the search for cost savings.

Collective Bargaining

Whatever efforts are made to save money should be taken in consultation with District staff. One of the several appropriate places for such joint planning is at the bargaining table. The district's long-range fiscal picture should be made readily accessible to San Francisco Unified School District employees at an early date so as to facilitate informed discussion between Board and employee representatives.

Maximizing Revenues

In addition to seeking reasonable means for minimizing costs, the San Francisco schools should attempt to maximize available revenues. In large measure this will have to be accomplished by persuading state officials to take San Francisco's relatively unique school conditions into account when framing new school finance legislation.

* * *

CONCLUSIONS

This Report projects an alarming picture for the fiscal future of the San Francisco Unified School District. The facts and estimates presented must be reviewed and understood by School District officials, and informed planning must begin immediately if the present level of service is to be maintained.

Additional tables and the figures referenced in the text are presented in the Appendix.

APPENDIX

Page

TABLE V: Comparison: Projected "Best Estimates" of Total Operating Expenditures with "High Estimates" of Total Operating Revenues, 1976-77 to 1979-80 i

TABLE VI: Comparison: Projected "Low" Expenditure and Projected "High" Revenue, 1976-77 to 1979-80 i

TABLE VII: Comparison: Projected "Best Estimates" of Total Operating Expenditures Per Pupil With "High Estimate" of Operating Revenues Per Pupil, 1976-77 to 1979-80 i

TABLE VIII: Comparison: Projected "Low" Total Operating Expenditures Per Pupil and Projected "High" Total Operating Revenues Per Pupil, 1976-77 to 1979-80 ii

TABLE IX: Revised "High Estimates" of Total Operating Revenues Reflecting S.B. 220, 1976-77 to 1979-80 ii

FIGURE I: Projections of Total Operating Expenditures for SFUSD iii

FIGURE II: Projections for Total Operating Expenditures Per ADA iii

FIGURE III: Projections of Total Operating Expenditures to 1980: Percentage Increments iv

FIGURE IV: Comparison: Projected "Best Estimate" of Total Operating Expenditures with "High Estimate" of Total Operating Revenues, 1976-77 to 1979-80 iv

FIGURE V: Comparison: Projected "Low Estimate" of Total Operating Expenditures with "High Estimate" of Total Operating Revenues, 1976-77 to 1979-80 v

FIGURE VI: Comparison: Projected "Best Estimate" of Total Operating Expenditures Per Pupil with "High Estimate" of Total Operating Revenues Per Pupil, 1976-77 to 1979-80 v

FIGURE VII: Comparison: Projected "Low Estimate" of Total Operating Expenditures Per Pupil with Projected "High Estimate of Total Operating Revenues Per Pupil, 1976-77 to 1979-80 vi

FIGURE..VIII: Projections of Expenditures in General Fund Category to 1980 vi

FIGURE IX: Projections of Federal/State Categorical Aid Expenditures to 1980 vii

FIGURE X: Projections of Expenditures on Children's Centers to 1980 ... vii

FIGURE XI: Projections of Expenditures on Development Centers to 1980 viii

FIGURE XII: Projections of Expenditures on County General Education to 1980 viii

FIGURE XIII: Projections of Expenditures on County School Services to 1980 ix

FIGURE XIV: Projections of Expenditures on Cafeteria to 1980 ix

TABLE V

Comparison: Projected "Best Estimates" of Total Operating Expenditures with "High Estimates" of Total Operating Revenues 1976-77 to 1979-80.

Year	Best Expenditure Estimate	High Revenue Estimate
1976-77	$167,621,671	$152,105,000
1977-78	174,430,983	153,888,000
1978-79	181,241,295	155,025,000
1979-80	188,051,607	156,504,000

TABLE VI

Comparison: Projected "Low" Expenditures and Projected "High" Revenues for 1976-77 to 1979-80.

Year	"Low" Expenditure	"High" Revenue
1976-77	$164,401,350	$152,105,000
1977-78	167,991,340	153,888,000
1978-79	171,581,330	155,025,000
1979-80	175,171,320	156,504,000

TABLE VII

Comparison: Projected "Best Estimates" of Total Operating Expenditures Per Pupil with High Estimate of Operating Revenues Per Pupil 1976-77 to 1979-80.

Year	Best Estimate Expenditures	High Estimate Revenues
1976-77	$2,479	$2,381
1977-78	2,630	2,511
1978-79	2,780	2,645
1979-80	2,931	2,782

TABLE VIII

Comparison: Projected "Low" Total Operating Expenditures Per Pupil and Projected "High" Total Operating Revenues Per Pupil 1976-77 to 1979-80.

Year	"Low" Expenditure	"High" Revenue
1976-77	$2,421	$2,381
1977-78	2,514	2,511
1978-79	2,607	2,645
1979-80	2,701	2,782

TABLE IX

Revised "High Estimates" of Total Operating Revenues Reflecting S.B. 220, 1976-77 to 1979-80

	High Estimate Pre-S.B. 220	High Estimate Post-S.B. 220	% Increase
1976-77	$152,105,000	$155,685,000	2.5%
1977-78	153,888,000	157,882,000	2.8
1978-79	155,025,000	159,205,000	3.0
1979-80	156,504,000	160,755,000	3.1

FIGURE I
Projections of Total Operating Expenditures

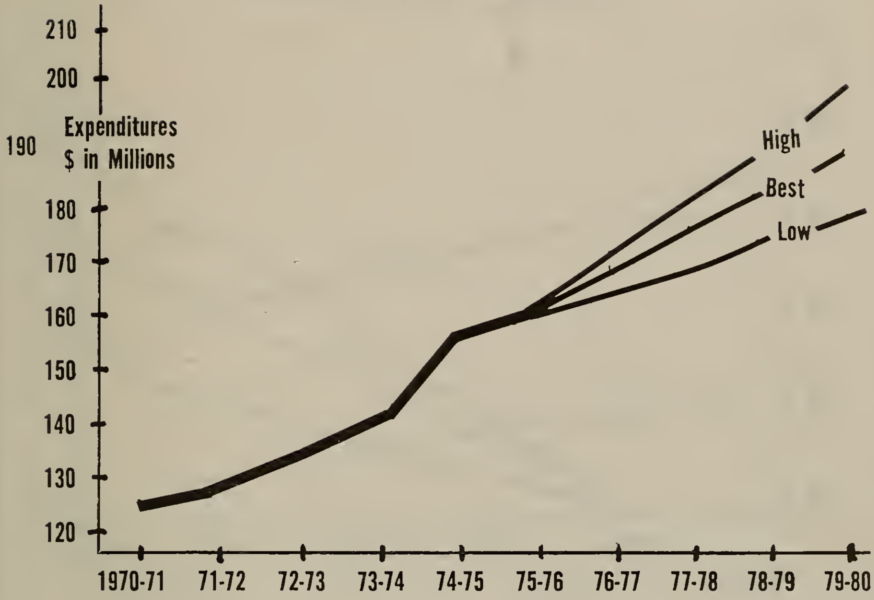


FIGURE II
Projections of Total Operating Expenditures per ADA to 1980

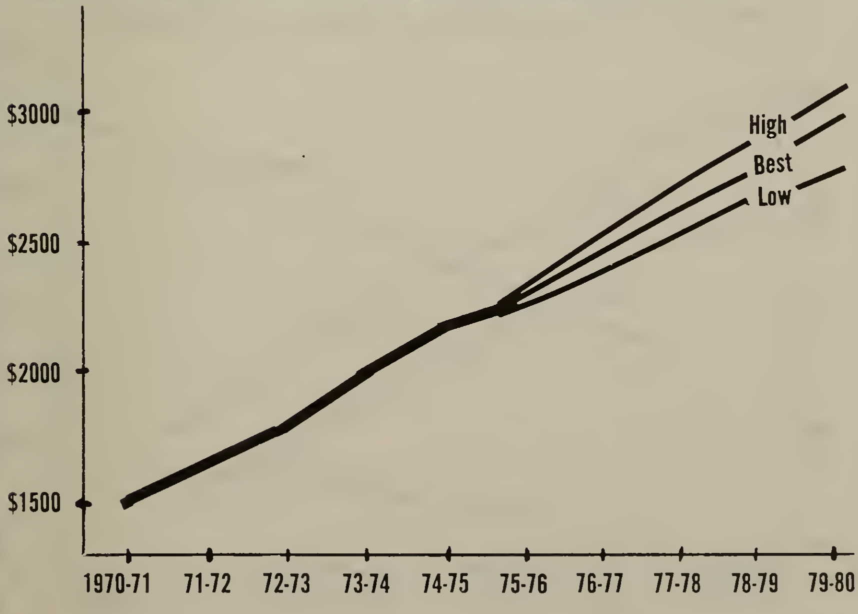


FIGURE III
Projections of Total Operating Expenditures to 1980: Percentage Increments

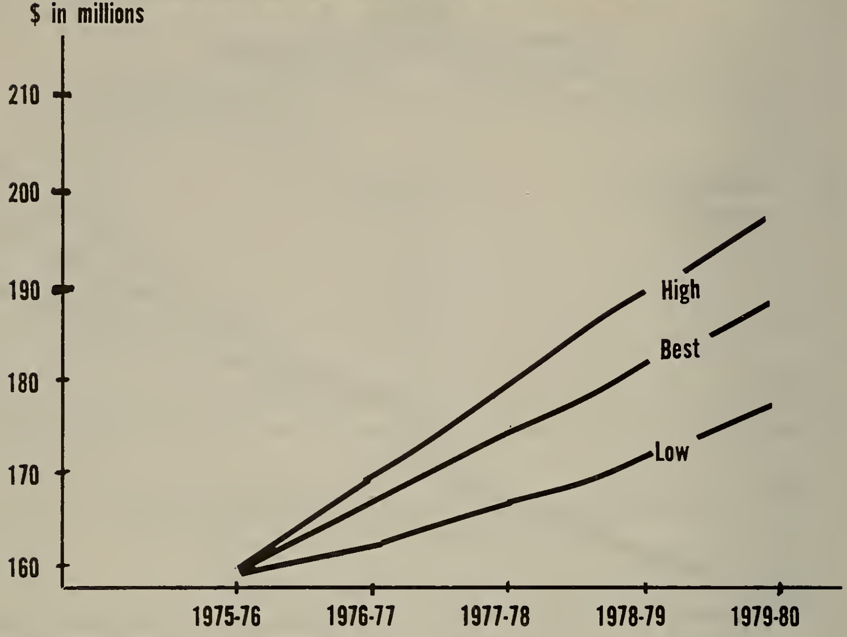


FIGURE IV
Comparison: Projected "Best Estimate" of Total Operating Expenditures with "High Estimate" of Total Operating Revenues, 1976-77 to 1979-80

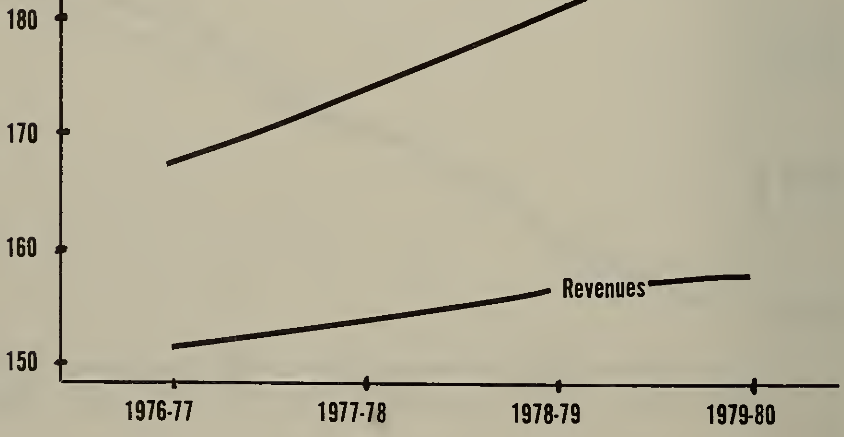


FIGURE V

Comparison: Projected "Low Estimate" of Total Operating Expenditures with "High Estimate" of Total Operating Revenues, 1976-77 to 1979-80

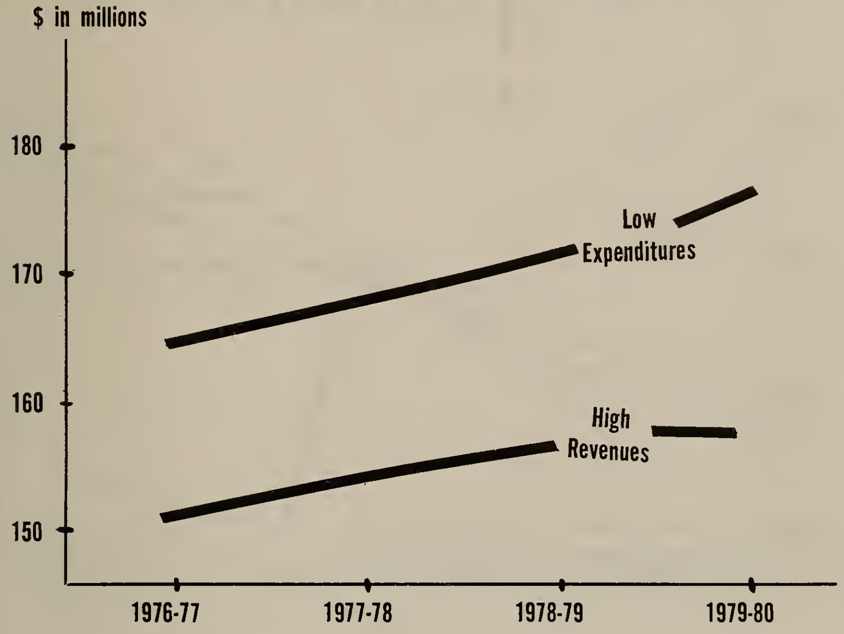


FIGURE VI

Comparison: Projected "Best Estimate" of Total Operating Expenditures Per Pupil with "High Estimate" of Total Operating Revenues Per Pupil, 1976-77 to 1979-80

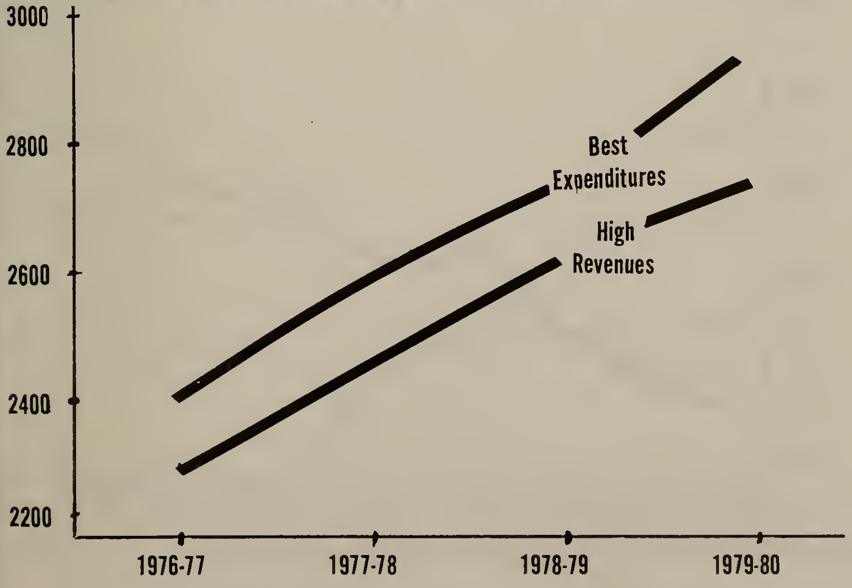


FIGURE VII

Comparison: Projected "Low Estimate" of Total Operating Expenditures Per Pupil with Projected High Estimate" of Total Operating Revenues Per Pupil 1976-77 to 1979-80

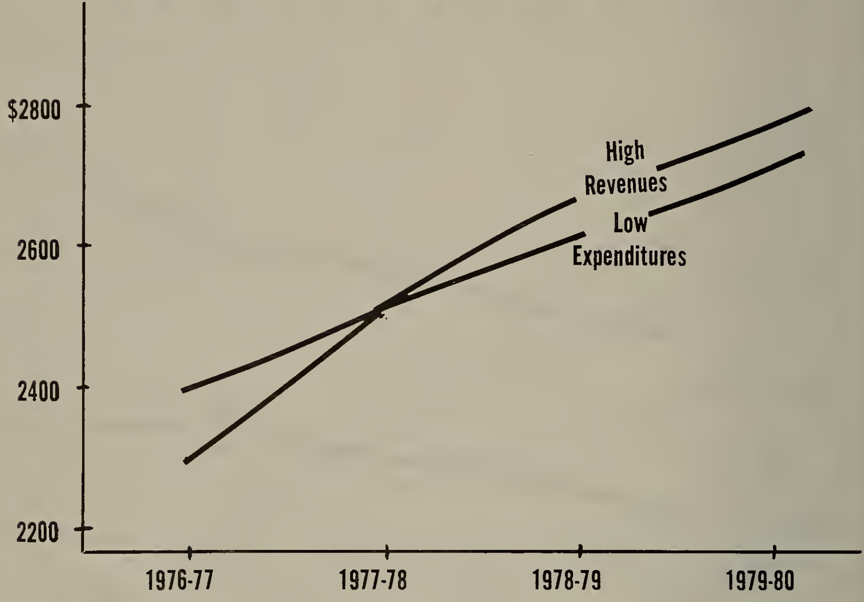
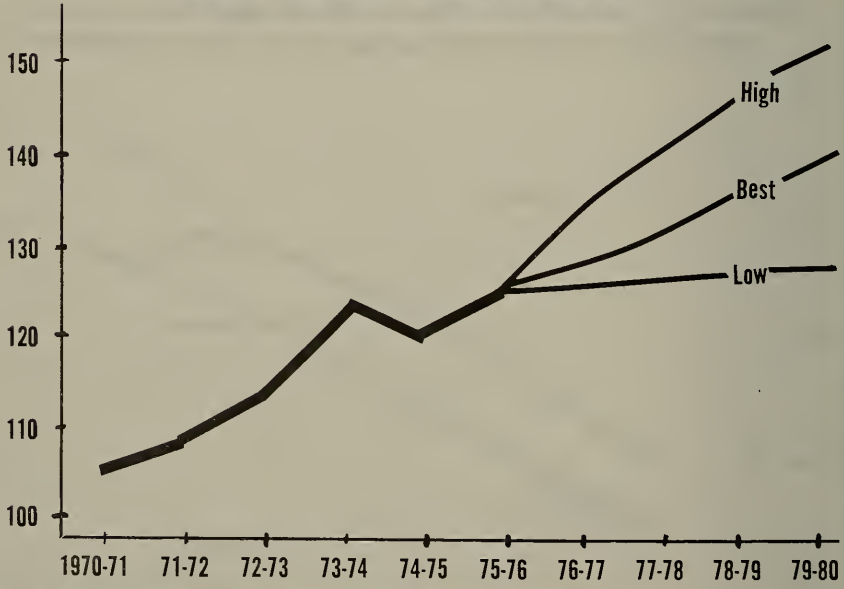


FIGURE VIII

Projections of Expenditures in General Fund Category*



*Does not include Federal/State categorical aid (unlike Controller's Report)

FIGURE IX

Projections of Federal/State Categorical Aid Expenditures to 1980

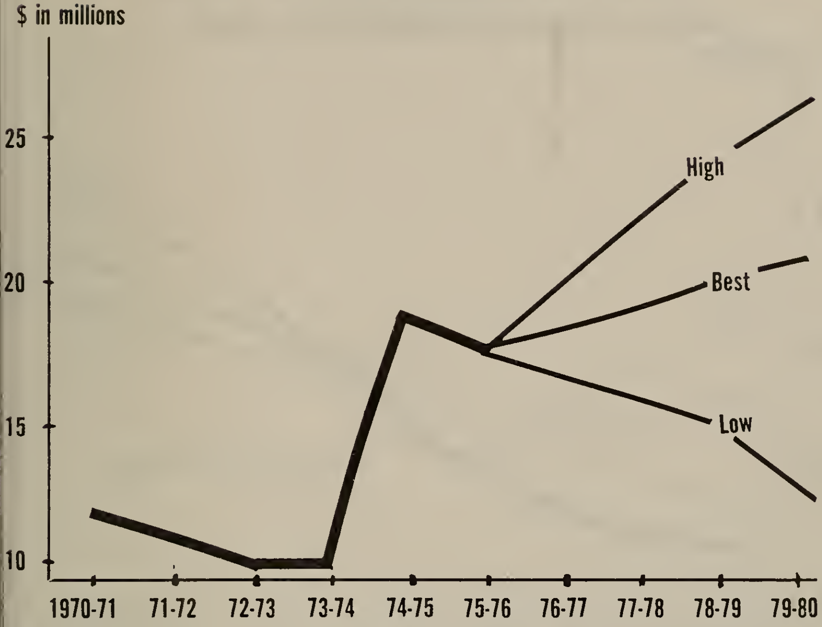


FIGURE X

Projections of Expenditures on Children's Centers to 1980

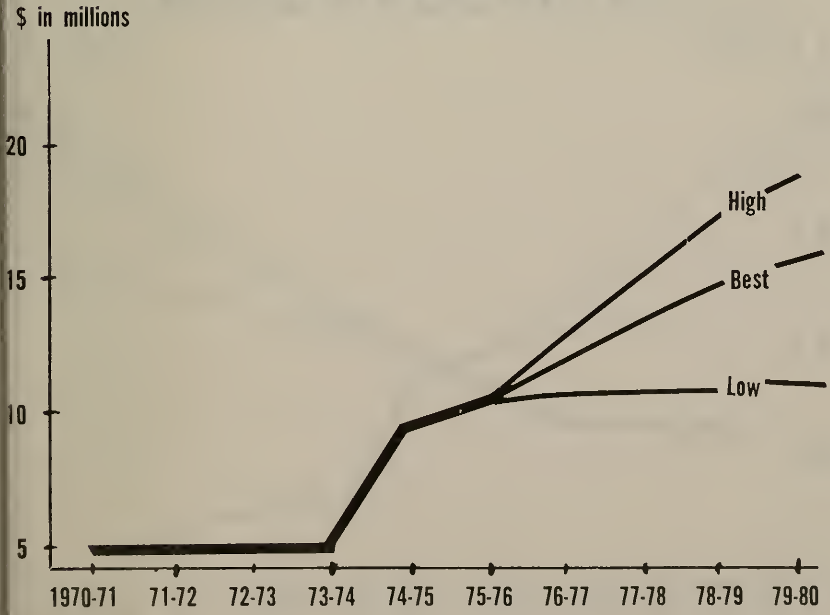


FIGURE XI

Projections of Expenditures on Development Centers to 1980

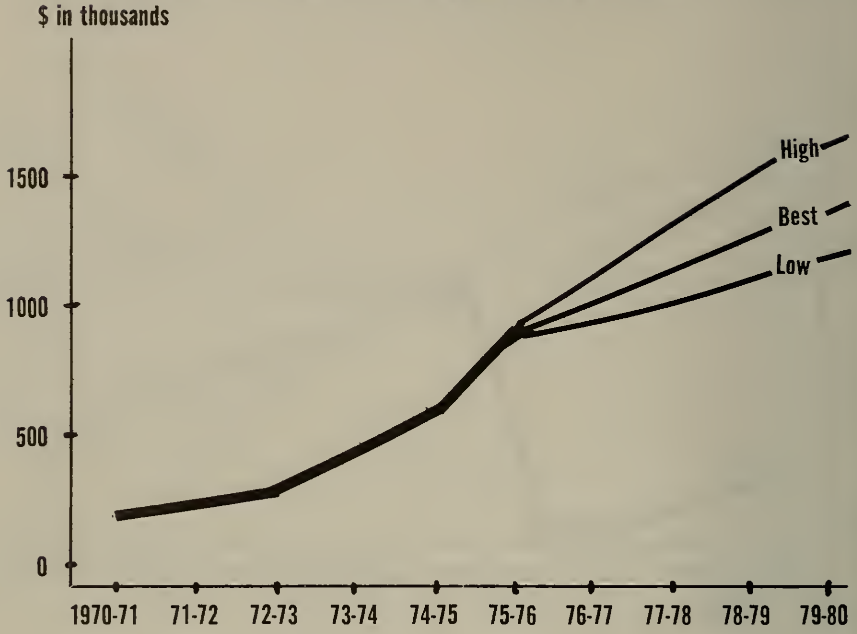


FIGURE XII

Projections of Expenditures on County General Education to 1980

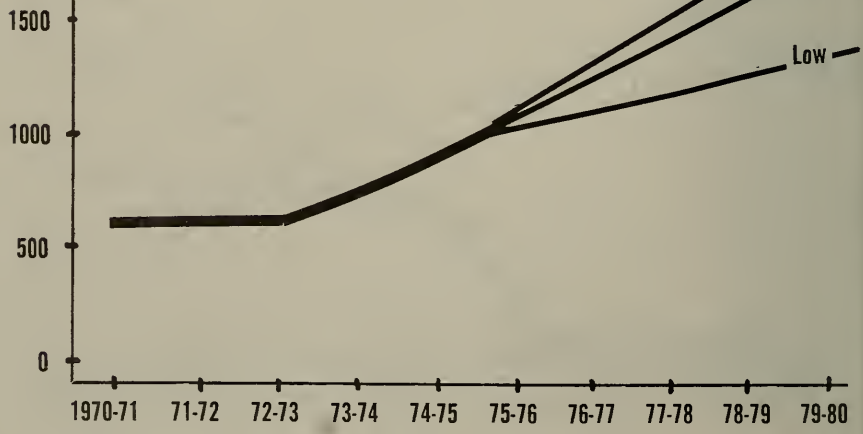


FIGURE XIII

Projections of Expenditures on County School Services to 1980

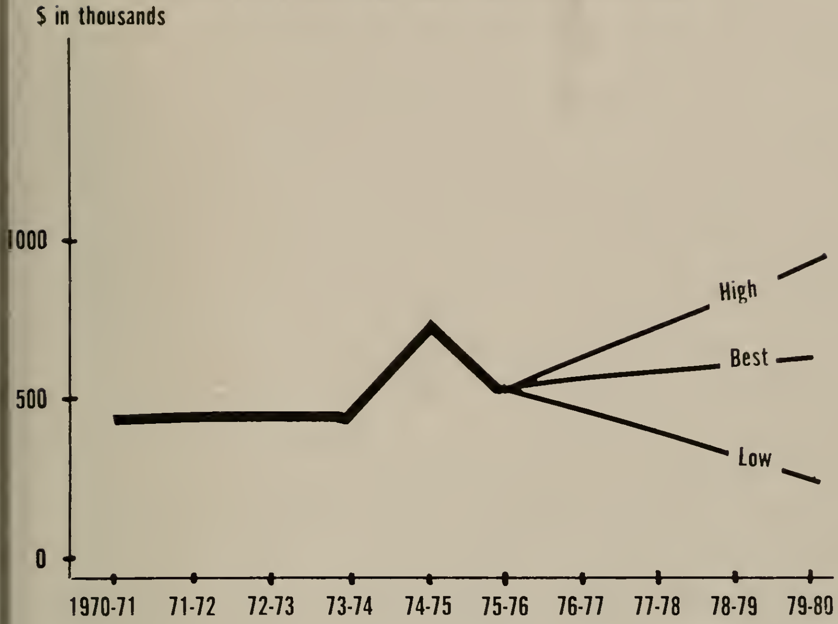
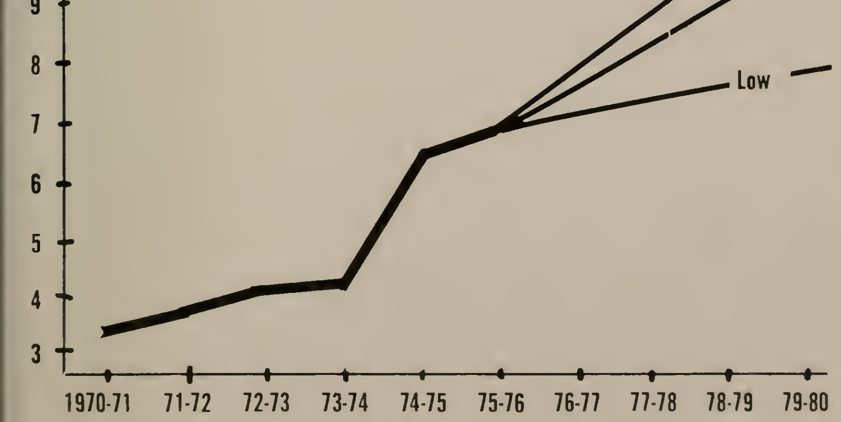


FIGURE XIV

Projections of Expenditures on Cafeteria by San Francisco Unified School District to 1980



#8 Pt. 2
c.3

FISCAL FUTURE
PART 2

STATE SCHOOL FINANCE REFORM

SAN FRANCISCO
PUBLIC SCHOOLS COMMISSION
REPORT AND RECOMMENDATIONS

SEP 8 1978

DOCUMENTS DEPT.
S.F. PUBLIC LIBRARY

The San Francisco Public Schools Commission was formed in January 1975 as a cooperative effort by the Board of Education of the San Francisco Unified School District and the State Superintendent of Public Instruction. The general objectives of the Commission are to identify problems in the School District and to assist in implementing agreed-upon solutions. The Commission is supported through grants from the San Francisco Foundation, the Ford Foundation, the Irwin Foundation, the Gerbode Foundation, and the San Francisco Unified School District.

COMMISSION MEMBERS:

Mrs. Bernice Brown
Mr. Lewis H. Butler
Mrs. Ruth Chance
Mrs. Caroline Charles
Mr. John Crowley
Dr. Roberta Fenlon
Mr. R. Gwin Follis
Mr. James Frankel
Mr. Herman Gallegos
Mr. Louis Garcia
Mr. James R. Herman
Ms. Aileen C. Hernandez
Dr. Asa Hilliard
Mr. Jerome Hull
Mr. Fritz Jewett
Mr. Robert Kirkwood
Rev. Donald Kuhn
The Hon. Harry Low
Mrs. Leslie Luttgens
Mr. Thomas J. Mellon, Jr.
Mr. Einar Mohn
Father Antonio Rey
Mr. William M. Roth (Chairman)
Mr. Yori Wada

Dr. Luvern L. Cunningham, Executive Director

REPORT
AND
RECOMMENDATIONS

THE FISCAL FUTURE OF SAN FRANCISCO PUBLIC SCHOOLS
PART 2:
STATE SCHOOL FINANCE REFORM

Prepared for:
THE SAN FRANCISCO
PUBLIC SCHOOLS COMMISSION
March 8, 1976

This Report is based on a staff paper
prepared for the Commission by:

Lawrence C. Pierce

SAN FRANCISCO PUBLIC SCHOOLS COMMISSION
785 MARKET STREET, ROOM 902, SAN FRANCISCO 94103
TELEPHONE (415) 495-0870

WILLIAM M. ROTH
Chairman

DR. LUVERN L. CUNNINGHAM
Executive Director

March 8, 1976

Dr. Lee S. Dolson, President
Board of Education
San Francisco Unified School District
135 Van Ness Avenue
San Francisco, California 94102

Dear Dr. Dolson:

This report is a modification of a more comprehensive document which was formally approved by the Commission and transmitted to the Board of Education on January 8, 1976.

As you are aware, Part I of the Commission's series of reports on the Fiscal Future of San Francisco's Public Schools presented expenditure and revenue projections. These estimates point up the alarming probability that the School District will face a $31 million shortfall of funds by 1980 if current expenditure and revenue patterns persist. Part III, now in preparation, will examine alternative ways to reduce expenditures and will recommend certain internal reforms to bring costs in line with expected revenues.

Beyond the revenue deficit projected according to current State aid efforts, San Francisco is likely to face an even more constrained financial situation resulting from judicial action in *Serrano v. Priest*. This report, Part II of the series, suggests *legislative* strategies for reducing the negative impact of post-*Serrano* equalization formulas.

The Commission presents this analysis with the expectation that it will be helpful to School District officials in anticipating and influencing the outcome of State school finance reform.

Sincerely,

William Roth

William M. Roth
Chairman

TABLE OF CONTENTS

page

SUMMARY 1

INTRODUCTION 1

SERRANO v. PRIEST.......................... 2

Background 2

The Danger for San Francisco............... 3

LEGISLATIVE ALTERNATIVES 4

What to Equalize........................... 4

How to Equalize............................ 5

ALTERNATIVE STRATEGIES 6

(1) New Wealth Definitions................. 6

(2) Adjustments for Special Educational Need.. 8

(3) Adjustments for Price Differences.......... 10

(4) Maximizing Existing Categorical Aids....... 12

(5) Rearranging Geographic Boundaries........ 13

CONCLUSION 14

SUMMARY

Along with an imminent shortage of funds facing the San Francisco Unified School District, anticipated school finance reforms are likely to create even greater financial difficulties. These may require program cutbacks or increased tax rates, or both.

The California Supreme Court decision that will outline school finance reform requirements is expected during the summer of 1976. The Legislature is already considering alternative plans. This Report describes the likely effect of potential legislation on San Francisco, and suggests that the School District begin to present arguments to the Legislature for remedies that will include consideration of San Francisco's special needs.

The Report further outlines several alternative strategies for reducing the negative impact of equalization reforms which the School District might consider.

INTRODUCTION

San Francisco's public schools face the prospect of a substantial shortage of funds. If the San Francisco Unified School District continues to increase spending at the same rate as it has for the last five years, and if no major changes occur in the means by which California finances its schools, the School District can expect a revenue shortfall in 1976-77 ranging from $12 to $15 million. This gap would subsequently grow such that by 1979-80 the District would have a shortfall between $18 and $31 million annually. These revenue and expenditure projections are presented in Part I of the Commission's series of reports on the School District's fiscal future.

This potential deficit is due in large measure to factors beyond the direct control of the School District. For example, Senate Bill 90, the controlling school finance statute in California, limits the amount of revenue a district may raise per pupil. This limit, in conjunction with San Francisco's declining public school enrollment and continually increasing costs, accounts for the likely revenue gap. Furthermore, the California Supreme Court is considering the *Serrano v. Priest* school finance equalization case. The most likely decision will result in legislation which will cause San Francisco even greater difficulty in obtaining school funds.

In simple terms, there are two major courses the School District can pursue in order to solve its potential fiscal problems: (1) it can attempt to gain added productivity from available funds; and (2) it can attempt to increase available revenues. Part III of the Commission's series of reports on the School District's fiscal future examines the first course of action; this Report describes strategies to increase available revenues.

Serrano v. Priest

The method of financing California's public schools may have to be changed to comply with the forthcoming *Serrano v. Priest* ruling of the State Supreme Court. Depending upon the State Legislature's response to the court ruling, San Francisco's schools could experience even greater future difficulty in raising money. Because the prospective court action is so critical to the District's well-being, a brief explanation of the case and its legal issues should be made.

Background

The current system of school finance in California delegates to local school districts major responsibility for financing public education. It has not, however, provided the districts with equal ability to pay for schools. Consequently, property-rich districts can raise more money for schools, and with lower tax rates, than property-poor districts.

The State's efforts to provide for equality of educational opportunity and to ensure a minimum level of education through State funding programs have failed to eliminate the wide disparities among school districts. Districts with varying tax bases continue to provide varying educational programs. As a result of this system of school financing, the quality of a child's education, as measured by dollar resources, depends upon the wealth of his school district.

The courts in California, in the *Serrano v. Priest* (1971) school finance case, determined that distributing educational resources on the basis of a district's wealth is unconstitutional, violating the equal protection guarantee. The Court held that under State law, the quality of a child's public education may not be a function of the wealth of his "parents and neighbors", but only of the State as a whole. The precise meaning of this standard is not immediately evident; for example, what is meant by terms such as "quality" and "wealth"? Nevertheless, the basic intent is clear. No longer will school districts with high property wealth be able to spend large amounts per pupil, unless they exert the same tax effort as their less wealthy neighbors. Herein resides the potential fiscal discomfort for San Francisco's public schools.

The Danger for San Francisco

San Francisco, when measured by conventional standards, is a wealthy school district. In 1975-76, it is spending in excess of $2300 per pupil. Only 2 percent of California's districts spend more. The overwhelming portion of these monies are raised by taxing property. Table I demonstrates that San Francisco is by far the richest city in the State when "assessed value per pupil" (av/pp) is taken as the measure. The average wealth per pupil in the State's school districts was slightly less than $20,000 during that year.

TABLE I

Wealth, Tax Rate, and Expenditure Comparisons for California's Large City School Districts, 1973-74

School District	Total AV/PP	(ADA)	Tax Rate*	Expenditures Per Pupil
San Francisco	$36,023	(69,986)	$3.62	$1,934
Long Beach	21,269	(61,224)	4.23	1,215
Los Angeles	15,864	(661,702)	3.94	1,162
Oakland	18,688	(59,035)	5.12	1,472
Sacramento	11,164	(52,637)	3.96	1,088
San Diego	15,642	(127,339)	3.97	1,056
San Jose	14,647	(38,329)	5.54	1,305

*Tax Rate shown as the legal limit, excluding special categorical levies and county school tax rate.

Source: California State Controller, *Annual Report of the Financial Transactions Concerning School Districts of California, 1973-74.*

Its unusually wealthy tax base enables San Francisco to generate high per pupil expenditures with a relatively low school property tax. Its low school tax rate still enables San Francisco to spend more per pupil than 97 percent of all school districts. Under strict interpretation of *Serrano,* San Francisco might have either to (1) raise its taxes, (2) lower its expenditures per pupil, or (3) both of these. (The fiscal disparities questioned by *Serrano* are evident from the figures displayed in Table I.)

Legislative Alternatives

Assuming that the California Supreme Court affirms the trial court's lecision in *Serrano,* what steps might San Francisco take to protect its chool revenue position? As matters currently stand, the Legislature has ntil 1980 to effect an equitable solution. The challenge will be for San rancisco's advocates to persuade the Legislature of the utility of implenenting reform features which either enhance the City's financial condition r, at least, reduce to a minimum any negative *Serrano* impact.

The Court in *Serrano v. Priest* left somewhat unclear two important uestions: what to equalize and how equalization is required. The answer o these questions will determine the shape of a revised school finance law, nd its impact upon San Francisco. There are three possibilities with repect to *what* should be equalized: dollars per pupil, available resources per upil, and educational outcomes.

Vhat to Equalize

Equalizing dollars would be the easiest, but would be unsatisfactory rom an educational point of view. Such an answer entirely overlooks the act that it costs more to provide the same services in some districts than in thers, and that the distribution of children who are relatively costly to ducate is uneven across school districts.

Equalizing resources available to students, e.g., teachers, facilities, and aterials, is believed to be a more useful measure. To equalize resources equires the ability to measure differences in the costs of teachers and aterials and to make adjustments for such differences in the State's school nding formula. This would be a difficult, but not impossible task.

The leap from equalizing educational inputs — dollars or resources — equalizing educational outcomes causes even more difficulties than those st described. Philosophically, it is easy to make the case for equalizing utcomes. Education is simply a means to an end, and what we are attempt-g to do is to provide every student with an equal start in life. It follows at resources should be distributed in such a way that students requiring the ost help should receive substantially more resources.

There are identifiable groups of children in some school districts whose performance can be improved with properly utilized extra funding. Children with handicaps have special needs requiring additional resources. Bilingual children can be helped if funds are available for teachers who speak their native languages. Similarly, low-achieving children appear to be helped if funds are made available for remedial instruction in reading, writing, and computation. In other words, while equalizing educational outcomes may not be a feasible standard for statewide programs, it may provide adequate justification for distributing additional educational funds to those districts with concentrations of students with special needs.

In summary, the courts have not settled the question of whether the appropriate target for State equalization is equal dollars spent, equal dollars corrected for price differences, or equal dollars corrected for both price differences and educational need. What the trial court's decision suggests is that expenditure differences attributable to wealth must be eliminated, and that adjustments for price difference and educational need, though not required, are allowed.

San Francisco, like many other urban school districts, has both higher costs and greater needs. These factors result from the higher wage and price structure of urban areas and the greater concentration of students with special educational needs. Since San Francisco already spends more than the average district in California, a simple plan to equalize spending would mean fewer dollars to spend and/or higher tax rates in the City. On the other hand, a school finance plan which considers price and need factors would reduce the adverse effects of wealth equalization on San Francisco.

How to Equalize

The second unresolved question emerging from *Serrano* concerns the *degree* of equalization required. Under present Court mandates, there are several possibilities, ranging from a high to a low degree of equalization.

According to a strict interpretation of the court's mandate, the goal of providing equal educational opportunity is so important that only differences in local prices and in educational needs of students should be permitted under a revised State school finance law. Those who argue this position contend that neither local wealth, the local tax base, nor local preferences should determine the amount of money spent on public education, and that the State should fund entirely public primary and secondary schools. This remedy is usually labeled "full State assumption".

Those educators and experts who interpret the court mandate strictly, but who believe educational choice should remain at the local level, advocate another plan for reducing inequalities based on wealth. They would permit one school district to spend more for education than another, so long as the differences reflects an additional tax effort. This remedy is usually called "district power equalizing". Just as under "full State assumption", however, a district with the same tax effort as another could spend more per pupil if it costs the district more to provide the same services, or if the district has higher concentration of special students. The "district power equalizing" emedy recognizes, therefore, that costs vary even between districts of comarable wealth.

Both of these plans meet the criterion that the quality of public educaion not be a function of local wealth. Many educators and legislators, hower, believe that the courts will accept some limited differences in spending nd tax rates if the State *sharply* reduces present inequalities. This concluion will probably be tested in the courts to determine what acceptable disarities might be. Whatever is decided, the greater the flexibility given the Legislature, in terms of allowable deviations from exact equality and in erms of the phase-in time allowed, the more easily the Legislature will evelop a plan acceptable to urban districts such as San Francisco.

Alternative Strategies

Given that the Legislature will eventually determine the shape of Calirnia's finance law (within the mandate of the court), what features should an Francisco attempt to have enacted? There are, of course, several actions at should be considered. Discussed here are five major strategies that San rancisco officials should address: (1) new wealth definitions, (2) adjustents for special educational needs, (3) adjustments for price differences, 4) maximizing existing categorical aids, and (5) rearranging geographic undaries.

1) New Wealth Definitions

California's school finance system presently defines the fiscal capacity of cal districts in terms of assessed property value per pupil. This definition nds to overstate the wealth of San Francisco and the ability of its citizens pay additional taxes. For example, per capita personal income in San rancisco is only *slightly* above the State average, and the proportion of personal income that is paid in local taxes is *considerably* above the State average. Both of these measures contrast with the property wealth per ADA, which is more than *twice* the State average.

One approach to solving this problem is to focus on the heavy non-educational tax burden of large cities and to adjust State formulas to account for "municipal overburden". The argument for this course of action contends that large cities have extraordinary demands and needs in such areas as police, fire, transportation, and health services. They therefore have a lower proportion of the local tax dollar available to support public schools than non-urban districts. In some districts, for example, 70% to 80% of local tax dollars go to support education, while in many large cities the amount is frequently between 30% and 40%. Property tax rates for school purposes and for other local governmental purposes, for both San Francisco and for neighboring suburban counties, are shown in Table II.

TABLE II

Average Property Tax Rates for Public School and Other Purposes in San Francisco and in Neighboring Counties, 1973-74

School District	School Tax Rate	Other Purpose	Total Rate	% for School Purposes
Contra Costa	$6.86	$5.85	$12.71	54%
Marin	6.64	4.63	11.27	58%
San Francisco	4.47	7.30	11.77	38%
San Mateo	6.31	3.53	9.84	64%
State Average	$5.91	$5.24	$11.15	53%

Source: Derived from fiscal data reported in *California Statistical Abstract,* 1974, in Erick L. Lindman's "A Corrective Factor For One Dimension of the Municipal Overburden Problem".

The figures in Table II demonstrate that non-urban counties spend a considerably higher percentage of revenues derived from local taxes on school purposes than the urban county of San Francisco. Whereas San Francisco's tax rate is only slightly above the State average, that proportion which the City spends on school purposes is less than three-quarters of the State average. From these facts, an argument can be made that the State should distribute aid in relation to the property wealth available for public education, rather than in relation to total property values.

One way to correct for this distribution problem is to provide that a school district's assessed property values be adjusted to reflect the ratio of school taxes to total taxes in determining its State entitlement. Another possibility would measure tax effort not on the basis of property tax rates, but on the basis of the proportion of personal income used in support of local government. While assessed property valuation per pupil could still be used as the measure of fiscal capacity, this new measure would reveal San Francisco exerting a much greater tax effort relative to other school districts than if only property tax rates are used. Instead of being below the State average on tax effort, San Francisco would be approximately 36% above the State average.*

The measure of personal income used to support local government, however, would exclude corporate income because its intent is to make school financing more sensitive to the large number of low- and moderate-income people living in cities. Suburban school districts may argue that if corporate income is excluded in determining the district's eligibility for State funds, then distrcts should not be allowed to tax commercial and industrial property for school purposes. Instead they might argue for a law to have a statewide property tax on non-residential property, the proceeds to provide arger State support for local school districts.

Since the "municipal overburden" approach would shift money from the suburbs into the cities, it is unlikely to be passed in a pure form by the California Legislature. It is conceivable, however, that adjustments might be constructed which would ameliorate the adverse consequences of *Serrano* reforms by acknowledging the cities' special needs.

2) Adjustments for Special Educational Need

Another strategy for softening the effects of *Serrano* reforms is to increase the number of pupil weightings used in the finance formulas, since he amount of State aid a district receives is based upon the number of tudents served by the district. There is a tradition in California of using pupil weighting to determine State aid. Since high school students are counted more heavily than elementary students, the National Educational Finance Project (NEFP), as part of its study of school finance in the United

---

John J. Callaham, William H. Wilken, M. Tracey Sillerman, *Urban Schools and School Finance Reform: Promise and Reality*, Washington, D.C., The National Urban Coalition, 1973.

States, devised a weighting scheme based on the relative costs of educational programs. The weights they used were:

Program	Weight Assigned
Basic elementary grades 1-6	1.00
Grades 7-9	1.20
Grades 10-12	1.40
Kindergarten	1.30
Mentally handicapped	1.90
Physically handicapped	3.25
Special learning disorder	2.40
Compensatory education	2.00
Vocational-technical	1.80

San Francisco has higher than average concentrations of both students with handicaps and low-achieving students. Consequently, the use of weightings would adjust the District's per pupil count upward, making San Francisco appear less wealthy, on a per pupil basis, than without weights. The result would justify San Francisco to receive an increase in State aid. (The National Urban Coalition analysis projected that San Francisco's property taxes per pupil would decline by 35.9% if weighted for educational need on the NEFP basis.)

The State currently provides San Francisco with more than $13 million in categorical or special State aid programs. Most of this money is designated for the educationally disadvantaged youth program, special education programs, and bilingual education programs. Although some of these programs have been criticized, especially the educationally disadvantaged youth program, a strong case for increased categorical aid can still be made. At a minimum, State-mandated programs for children which are unevenly distributed among school districts should be funded entirely with State money. To require a particular bilingual program, for instance, without providing State monies to support it, means that the regular education program suffers in districts with higher than average concentrations of bilingual students.

An educational argument can also be made to scale State categorical aid for low achieving children in accordance with the concentration of children in each district. When the proportion of children needing compensatory instruction increases above certain levels, added problems occur which require additional instructional efforts. State payments, therefore, should be provided on a sliding scale which escalates the amount of aid in relation to the concentration of eligible pupils.* Approximately 35% of San Francisco's students are defined as disadvantage by Federal standards (ESEA Title I). A State program which provided a sliding scale in relation to concentration of students would increase the flow of money to the City.

Finally, San Francisco should strive to have the State count students on the basis of enrollment rather than attendance. This change would increase San Francisco's student count by approximately 7.5%. Because many of the costs of education persist regardless of whether students attend school everyday, a school district should not be penalized for absenteeism.

(3) Adjustments for Price Differences

It is usually the case that it costs more to provide similar services in urban school districts than in suburban and rural school districts. Costs for buildings and maintenance, personnel, supplies, and security are often higher in large cities. While few people would quarrel with this contention, it has been extremely difficult to persuade legislators to correct for it. Despite the difficulties involved, it is important for the State to recognize and compensate for legitimate cost differences. There are at least four categories of cost differences for which the State should adjust: (1) transportation, (2) capital outlay and debt service, (3) diseconomies of scale, and (4) regular education program costs.

First, differences in transportation costs have little to do with the education program and a lot to do with geography and desegregation efforts. Most states provide money to pay for excess transportation costs and desegregation efforts. While a good case can be made for the state to pay the total cost of transportation, it probably encourages greater efficiency to require that some portion, say 20%, be left to local support. Urban districts should also request aid for public transportation systems to the extent that non-school buses are used to transport children to schools.

A **second** area where district costs should be augmented is for capital outlay and debt service. State aid to renovate buildings and to relocate schools to promote integration is a legitimate, though significant financial burden; the State should share this fiscal responsibility with local districts.

---

*For example, districts with less than 5% eligible students might receive $200 per pupil in State funds. Those between 5% and 10% might receive $200 per eligible student for the first 5%, and $400 per student over 5%. In those districts with more than 10% eligible students, State payments would be $200 for the first 5%, $400 for the next 5%, and $600 per student over 5%.

A third kind of price adjustment is for the differences resulting from diseconomies of scale. Most states provide extra funds to sustain small schools where populations are sparse. Such assistance is usually provided by allowing proportionately more state aid per pupil to those schools. Similarly, it is becoming clear that there are also diseconomies in the operation of large schools and school districts. For example, administrative costs, as well as maintenance and renovation costs, rise more than proportionately after a certain point. Such factors are recognized in private industry; likewise, they should be recognized in urban school districts.

Fourth, the most difficult, but certainly the most important adjustment, is for price differences. The cost of standard school programs vary among school districts because of cost of living factors. One approach to moderating these factors is to adjust the State's basic aid formula by a cost of living index. There are, of course, some immediate cost problems with such an adjustment. For example, it would be extremely difficult to conduct a cost of living survey in every school district in California because of the large number and variety of districts. It would be financially infeasible to conduct such surveys on a regular basis for every district. Regional cost of living indicators might be more reasonable information to collect, but they would not reveal differences within regions—and these clearly exist. Nevertheless, efforts should be made to relate cost of living factors to the provision of educational services.

In addition to these four categories, the National Urban Coalition has proposed an index that combines differences in district costs with adjustments for special educational needs, the local tax effort, and the fiscal capacity of districts. In constructing this index, these factors are measured as follows:

District costs: the ratio of average teacher salaries to the state's average.

Tax effort: the ratio of total district taxes, as a percentage of income, to the statewide average, as a percentage of local taxes to personal income.

Fiscal capacity: the ratio of per capita income in a district to the per capita income for the state as a whole.

Need: the ratio of district families in poverty to families in poverty in the state.

he composite index, created by summing and averaging the four individ- l ratios, represents a "deservedness" index. State aid would then be ap- rtioned according to a district's position on this index and would tend to w most heavily to districts with higher costs, greater need, higher local x effort (as measured by personal income paid in taxes), and inversely to erage personal income in a district.

( ) Maximizing Existing Categorical Aids

There presently exists a number of State categorical programs from hich San Francisco already receives funds. An effort should be made to pand such aid and increase the share of available State money for the hool District. The Early Childhood Education program (ECE) is a good ample.

During the first three years of the ECE program, the San Francisco ified School District received $1,590,909. The amounts received each year a shown in the Table III:

TABLE III

Early Childhood Education Funding

r	Total State Appropriation	Allocation to San Francisco	San Francisco's Percent of Total Appropriation
74	$25,000,000	$386,628	1.55%
75	$40,000,000	$477,970	1.19%
76	$63,200,000	$726,311	1.15%

shown in Table III, although San Francisco had approximately 1.6% the State's K-through-3 children during the 1974-75 school year, the y received only 1.19% of ECE funds distributed to school districts. Ef- s should be made to increase this funding level to reflect the District's portion of the population.

Further, if the Governor's budget request for an additional $35 million is roved by the State Legislature, the ECE appropriation will increase to roximately $98.2 million for 1976-77. Assuming San Francisco con- ies to receive the same share of state funds as in 1975-76 (1.15%), it ld receive $1,129,000 that year. If the District received an ECE alloca- equivalent to its share of the State's K-through-3 population, it would ive approximately $1,500,000 next year.

The RISE Commission has recommended that ECE be expanded to include all students in grades K through 6. No estimates have been made of the costs of this expanded program. Assuming the current basic per pupil allocation of $130, however, San Francisco (with a K-through-6 enrollment of 34,913 in 1975-76) would have received over $4.5 million in ECE funds.

In summary, the District can expect to receive additional State support through the ECE program. Since expansion of the ECE program in a district depends primarily on the submission of acceptable school site proposals and on the evaluation of current ECE programs, efforts should be made to prepare proposals and to fully implement funded programs. San Francisco should also support efforts in the Legislature to approve the Governor's request for additional ECE funds this year, as well as the RISE Commission's proposal to expand the program to include grades 4 through 6.

(5) Rearranging Geographic Boundaries

The last and most radical strategy calls for decentralizing the San Francisco Unified School District, as well as other urban school districts, for the purpose of calculating State aid. California, like many other states, is comprised of a few very large urban school districts surrounded by many small districts. San Francisco contains pockets of high-valued property which, when averaged with the relatively small proportion of residential property, provide the appearance of great overall wealth when calcuulating State aid.

Outside the City, school districts tend to be smaller. A small district with valuable industrial property benefits from basic aid grants and the "save harmless" provisions (allowing high-spending districts to maintain current per pupil expenditures) applicable to the current revenue limitations. A district next to it which is "property poor" benefits also from State equalization. It may be advantageous, therefore, to divide San Francisco into smaller districts for calculating State aid, thus providing parallel treatment. As a result of such action, relatively poor residential communities within the City would not have their State equalization aid eliminated by high central district property values.

The decentralization approach has been used in New York City since the 1960's. By dividing New York into its five boroughs for calculating state aid, three of the five became eligible for state funds above the minimum grants provided for all districts. State aid to New York City was increased by almost 20% as a result of the change in the geographic basis for calculating state aid.

CONCLUSIONS

School finance reform in California, anticipated as a response to the rthcoming *Serrano* decision, will have a substantial impact on San Fransco. In addition to the current projected revenue deficit, San Francisco's ublic schools are likely to face an even more constrained financial situation sulting from any State equalization formula. The School District must ddress itself to understanding the probable effect of the *Serrano* decision, nd should begin to seek legislative consideration for the special needs and oblems of San Francisco.

This Report signals some of the potential dangers for San Francisco in e court's decision, and suggests possible alternatives for dealing with qualization reforms. The Report also advances several strategies that San rancisco can pursue in the State Legislature which would minimize the dverse effects of certain finance alternatives. The Commission presents this nalysis with the expectation that it will be helpful to School District offials in anticipating and influencing the outcome of State reform efforts.

#8 Pt. 3
c 3

FISCAL FUTURE
PART 3

EXPENDITURE PATTERNS

SAN FRANCISCO
PUBLIC SCHOOLS COMMISSION
REPORT AND RECOMMENDATIONS

SEP 8 1978

DOCUMENTS DEPT.
S.F. PUBLIC LIBRARY

The San Francisco Public Schools Commission was formed in January 1975 as a cooperative effort by the Board of Education of the San Francisco Unified School District and the State Superintendent of Public Instruction. The general objectives of the Commission are to identify problems in the School District and to assist in implementing agreed-upon solutions. The Commission is supported through grants from the San Francisco Foundation, the Ford Foundation, the Irwin Foundation, the Gerbode Foundation, and the San Francisco Unified School District.

COMMISSION MEMBERS:

Mrs. Bernice Brown
Mr. Lewis H. Butler
Mrs. Ruth Chance
Mrs. Caroline Charles
Mr. John Crowley
Dr. Roberta Fenlon
Mr. R. Gwin Follis
Mr. James Frankel
Mr. Herman Gallegos
Mr. Louis Garcia
Mr. James R. Herman
Ms. Aileen C. Hernandez
Dr. Asa Hilliard
Mr. Jerome Hull
Mr. Fritz Jewett
Mr. Robert Kirkwood
Rev. Donald Kuhn
The Hon. Harry Low
Mrs. Leslie Luttgens
Mr. Thomas J. Mellon, Jr.
Mr. Einar Mohn
Father Antonio Rey
Mr. William M. Roth (Chairman)
Mr. Yori Wada

Dr. Luvern L. Cunningham, Executive Director

REPORT
AND
RECOMMENDATIONS

THE FISCAL FUTURE OF SAN FRANCISCO'S PUBLIC SCHOOLS
PART 3:
EXPENDITURE PATTERNS

THE SAN FRANCISCO
PUBLIC SCHOOLS COMMISSION
April 21, 1976

This Report is based on a
consultant's paper prepared
for the Commission by:

James W. Guthrie

Primary staff for this project:

Diana K. Thomason

SAN FRANCISCO PUBLIC SCHOOLS COMMISSION
785 MARKET STREET, ROOM 902, SAN FRANCISCO 94103
TELEPHONE (415) 495-0870

IR. WILLIAM M. ROTH
Chairman

DR. LUVERN L. CUNNINGHAM
Executive Director

April 21, 1976

Dr. Lee S. Dolson
President, Board of Education
San Francisco Unified School District
135 Van Ness Avenue
San Francisco, California 94102

Dear Dr. Dolson:

This report is the third in a four-part series on the Fiscal Future of San Francisco Public Schools. The earlier reports revealed that the School District faces decreasing revenues and must curtail expenditures to meet budget constraints.

San Francisco spends twice the state average per pupil. To determine the causes for this high spending level, recent expenditure patterns were analyzed and compared with other urban districts in California. As this report shows, the high costs in San Francisco are explained primarily by the large numbers of teachers and administrators employed by the District. In fact, San Francisco employs more personnel per pupil than any urban district in the state.

San Francisco can no longer support such high levels of expenditure. Raising taxes to cover these costs cannot be justified in light of below-average student achievement. Despite recent Board action to the contrary, the Commission's analysis shows that one of the immediate solutions to the District's fiscal crisis requires staff reductions through layoffs. Such measures are always traumatic and difficult to implement; nevertheless, we are concerned that inaction at this time is fiscally irresponsible.

Part 4, "Alternatives for Reducing Expenditures", will outline a series of long-term options for cost reductions. They are intended to lessen the need for staff layoffs in the future. It is the Commission's hope that this four-part analysis will be helpful to the School District in planning for its fiscal future.

Sincerely,

William Roth

William M. Roth
Chairman

TABLE OF CONTENTS

INTRODUCTION 1
SAN FRANCISCO SCHOOL COSTS COMPARED 1
  County Complications 2
  Budget Category Comparisons 3
  Administrative Costs 5
  Instructional Costs 5
ACCOUNTING FOR COSTS 6
  Are Salaries the Cause? 6
  If Not Salaries, Then What? 7
  The Impact of Categorical Funds 8
COSTS AND EFFECTS 10
  School Achievement Compared 10
CONCLUSIONS 11

INTRODUCTION

If the San Francisco Unified School District continues to increase its spending at the same rate as has been the case for the past five years, and if no major changes occur in the means by which public schools are financed in California, then the San Francisco public schools may experience a shortage of available funds during the 1976-77 budget year ranging from $12 to $15 million. This gap may subsequently grow such that by 1979-80 the district would be short between $18 and $31 million.*

By law, however, California school districts must balance their budgets; long-run deficit spending is not permitted. In this context of severe financial constraints, the question comes as to why San Francisco's expenditures are exceeding its revenues. Are costs simply that much greater in San Francisco than in other urban districts? How do budgeting and expenditure patterns in San Francisco differ from those in comparable districts? The answers to these and related questions should form the basis for determining ways to reduce expenditures and permit San Francisco to make financial ends meet.

This part of the Commission's series of reports on the Fiscal Future of San Francisco's Public Schools examines the expenditure patterns of the School District in comparison to other urban districts in the state to determine causes of the financial crisis. Part 4 of the series considers alternative means for reducing expenditures and for gaining greater internal efficiencies from available revenues.

SAN FRANCISCO SCHOOL COSTS COMPARED

Despite the fact that San Francisco school attendance has decreased by more than 10,000 students in the past five years, total district spending has increased. Per pupil costs have risen 100 percent from approximately $1,100 in 1969-70 to a budgeted $2,323 in 1975-76.** Past year expenditure increases are thrown

---

*Part 1 of the Commission's series of reports on the "Fiscal Future of San Francisco's Public Schools" describes the revenue and expenditure projections that will produce a shortage of funds. Part 2 discusses strategies for state school finance reform resulting from the *Serrano* decision that could reduce the negative impact on San Francisco's revenue situation.

**Even discounting for inflation, this represents an approximate 55 percent expansion in per pupil spending over the last six years. According to the 1975 *Economic Report of the President,* the inflation rate between 1970 and 1975 was 35%.

into bold relief by comparison with a selection of California city school districts and with the state average.

Table I displays San Francisco's per pupil expenditures with those of Oakland, Los Angeles, and the state as a whole, for the years between 1969-70 and 1973-74. In contrast to the 72 percent increase in San Francisco, Oakland's costs (local and county contributions) increased approximately 56 percent, Los Angeles' 46 percent, and the state average annual expenditure by 41 percent.

TABLE I.

Percentage Increase in Current Operating Expenditures per Pupil, 1969-70 through 1973-74 for SFUSD, Oakland USD, Los Angeles USD, and California State Average[1]

Area	1969-70	1970-71	1971-72	1972-73	1973-74[2]	% Increase
San Francisco USD	$ 1,108	$ 1,455	$ 1,543	$ 1,628	$ 1,901 (1,907)	72 (72)
Oakland USD	936	1,069	1,161	1,294	1,446 (1,460)	54 (56)
Los Angeles USD	783	821	938	1,003	1,118 (1,147)	43 (46)
California State Average	781	847	920	990	1,100	41

[1] *These figures were obtained from California Association for Research in Education documents and have been validated by using State Controller's reports. These figures exclude dollar amounts for capital outlay and debt service. For this reason, per pupil expenditures are slightly lower than the total expenditure figures published in "Fiscal Future, Part I."*

[2] *Totals in parentheses represent the addition of county expenditures. See Table II.*

County Complications

San Francisco is unique among California cities in that municipal, county, and school district boundaries are coterminous. Whereas most California school districts draw upon the office of their respective County Superintendent of Schools for a variety of supplemental services, the San Francisco Unified School District (SFUSD) must supply such services to itself. Nevertheless, the School District is permitted to generate separate funds for "County" services in much the same fashion as other county offices of education.

The examination of comparative expenditures begins by questioning whether or not San Francisco's coterminous condition distorts the picture of its school expenditure pattern. Is it the case that San Francisco's school costs would be of relative magnitude to Los Angeles or Oakland if county contributions were computed as a portion of local expenditures? Although county expenditures are reported in a fashion which makes comparisons with San Francisco difficult, school costs are not exaggerated because an unsubstantial amount of funds come to districts from their counties. As Table II shows, less that 1% of San Francisco's costs are supported by county contributions. In Los Angeles County, only 2.5% of costs per ADA is attributable to the county. Although this percentage is the highest among the three districts, it is also unsubstantial.

TABLE II.

Comparison of County Contributions, 1973-74[1]

City/County	Total Expenditures	ADA	Expenditures per ADA	% Expenditures County Funds
Oakland (Alameda)	$ 3,090,983	216,382	$14.28	1.0%
Los Angeles	36,972,063	1,283,690	28.80	2.5%
San Francisco	427,052	69,986	6.10	0.3%

[1] *Source: Controller, State of California, "Annual Report of Financial Transactions Concerning School Districts of California, Fiscal Year 1973-74."*

If the county expenditures do not provide an explanation, then what is it about the operation of the San Francisco Unified School District that makes it so costly relative to other districts of comparable size and complexity? Is every facet of schooling simply more expensive, or does San Francisco engage in a few particularly costly endeavors? The second step in the examination compares expenditures by budget category.

Budget Category Comparison

Table III and Table IV compare expenditures for San Francisco, Oakland, and Los Angeles by major budget categories in 1973-74—the latest year for which comparative figures are available. These comparisons are provided as a *percent* of total per pupil spending (Table III) and as *dollar expenditures* per pupil (Table IV).

The percentages are not particularly revealing as a means to identify the cause of high costs in San Francisco. The proportion of SFUSD total revenues spent for various budget functions is not substantially different from comparison districts or the state average. For example, San Francisco spends 3.62 percent of its funds for central office administration. This is only slightly

TABLE III.

Analysis of School District Budget Categories (1973-74) as *Percentages* of Total Current Expense Budgets

Budget Classification	San Francisco	Oakland	Los Angeles
Administration	3.62%	3.01%	3.13%
Instruction	72.71	68.81	73.09
Health Services	0.10	1.31	1.08
Operation of Plant	6.07	6.24	6.95
Maintenance of Plant	6.06	3.08	4.40
Fixed Charges	11.45	17.56	11.34

Source: California Agency for Research in Education (C.A.R.E.) Document Number 21, January, 1975.

TABLE IV.

Analysis of School District Budget Categories (1973-74) as *Expenditures Per Pupil* of Total Current Expense Budgets

Budget Classification	San Francisco	Oakland	Los Angeles
Administration	$ 66.51	$ 41.89	$ 33.52
Instruction	1,334.64	958.66	781.56
Health Services	1.76	18.24	11.51
Operation of Plant	111.37	86.91	74.35
Maintenance of Plant	111.15	42.84	47.08
Fixed Charges	210.19	244.61	121.25
Current Total Expenses*	$1,835.65	$1,393.17	$1,069.30

**These figures do not include such costs as transportation, food or community services, capital outlay, or outgoing transfers.*

Source: California Agency for Research in Education (C.A.R.E.) Document Number 11, January, 1975.

higher, about 0.05 percent, than Oakland, Los Angeles, or the state. Similarly, the entire category of instruction finds San Francisco spending more than Oakland but somewhat less as a percentage than either Los Angeles or the state.

When attention is given to actual dollar amounts, however, the conclusions are substantially different. As Table IV shows, San Francisco spends significantly more per pupil than its peers, and the state in general, in four major budget categories. Each of these areas should be examined to determine factors which contribute to high expenditures. For example, why are costs for plant maintenance so much higher in San Francisco? For purposes of this report, however, only those categories of Administration and Instruction are analyzed in detail because they contain more than three-quarters of the budgeted expenses, the majority of which is contained in Instruction.

Administrative Costs

The central office expenditures for a school district are encompassed in the "Administrative" budget category. Here are located the salaries of superintendents, assistant superintendents, clerks, custodians, and consumable items needed to manage and coordinate a complicated organization. In 1973-74, San Francisco spent $66.51 per pupil for Administration, which is almost twice what Los Angeles spent ($33.52), and more than 35 percent more than Oakland ($41.89).

Moreover, administrative costs are to be found in budget categories in addition to "Administration." The salaries of principals and supervisors, for example, are allocated to budget category, "Instruction." Here, too, San Francisco exceeds its urban peers and the state average by a wide margin. Principals and supervisors salaries combined totaled $94.62 per pupil in 1973-74. The comparable figure for the state was $54.29. Los Angeles spent $55.36, and Oakland $62.04.

Instructional Costs

The "Instruction" budget category contains expenditure items most directly related to teaching—e.g., salaries of teachers and teacher aides, as well as psychologists, guidance counselors, classroom supplies and books, and those administrative costs for principals and supervisors. The overwhelming proportion of school district expenditures, for San Francisco and every other district, are attributed to this category. As Table III shows, the SFUSD allocated almost 73 cents of every revenue dollar to this budget category in 1973-74. The state average that year was almost 74 cents. When principals and supervisors salaries (administrative costs) are deducted, this budget category accounts for almost 68 percent of San Francisco expenditures, which is approximately the same for the state in general. Thus, as was the case for administration, the SFUSD outlay for instruction is consistent with practice elsewhere when considered as a *proportion* of total costs.

The absolute dollar amount spent for instruction, however, is disproportionately high. As Table IV shows, San Francisco far exceeds comparable districts in the category of Instruction costs. In fact, San Francisco spends nearly 40% more per pupil than Oakland, and fully 71% more than Los Angeles.

ACCOUNTING FOR COSTS

There are two plausible explanations for San Francisco's extraordinarily high personnel costs in both Administrative and Instructional categories—high salaries and larger than average numbers of employees.

Are Salaries the Cause?

Teacher salaries for the five largest school districts in California are summarized in Table V. The significant conclusion to emerge from these data is that teacher salaries in San Francisco are relatively similar to those in comparable districts. The mean varies by only 1% from the state average, and less than 5% from any comparable district. Only Sacramento has a lower beginning or entry-level salary, and San Francisco's topmost salary rung is the lowest of the districts being compared.* Although 28% of San Francisco teachers are at the top salary step, compared with only 17% for Los Angeles and 5% for Oakland, the mean salary figure is not out of line. Thus, neither seniority nor pay scales in San Francisco account for the per pupil difference in instructional expenditures.

Administrator salaries follow much the same pattern as teacher salaries in San Francisco. The average administrator in the SFUSD, including central office and school site personnel, was paid $23,859 in 1974-75. The comparable figure for Oakland was $22,403 and for Los Angeles, $24,855. Here again, though paying comparably, San Francisco's administrative wages are insufficient to explain the large inter-district differences in per pupil spending. Another fact to be noted is that the distinction between teacher and administrator salaries is substantial. In 1974-75, for example, the average (median) administrative salary was 32 percent higher than the average (median) classroom teacher salary.*

---

*These figures show something of a distortion, however, with regard to maximum pay scales for San Francisco. First, the top step of the SFUSD schedule is the easiest of the comparison group to attain. San Francisco requires only 60 units beyond the Bachelor's Degree in order to qualify for the highest level of salary. Other districts require either more academic units, the presumed discipline of a Master's Degree program, or both the Master's Degree and more units. Secondly, San Francisco offers so-called longevity increments, one at 15 years and another at 18 years of service. Increment "A" amounts to an annual salary of $18,$40, and 258 teachers were eligible for such compensation in 1974-75. Increment "B" equals $18,760, and was being paid to 968 teachers.

Classified employees—teacher aides, secretaries, custodians, and so on—are paid on a salary schedule separate from teachers and administrators. Evidence derived from comparing per pupil expenditures for classified services with ratios of classified employees to pupils in other school districts suggests that San Francisco's pay scales in this area are neither high nor low.

TABLE V.

Summary of 1973-74 Teacher Salaries

Salary Item	San Francisco	Los Angeles	Oakland	San Diego	Long Beach	Sacramento	State Average
Starting Salary	$8,265	$9,670	$8,397	$8,993	$9,300	$8,000	
Top Salary	$17,115	$18,060	$18,393	$18,495	$18,848	$18,104	
Mean Salary	$14,737	$15,197	$14,619	$15,049	$15,223	$13,887	$14,439
Number of Teachers	4,448	29,446	2,927	5,429	2,728	2,324	
Number of Teachers in Top Step	1,238	3,965	141	1,021	276	132	
Definition of Top Salary Step	III BA + 60	VII 8A + 98	IV BA + 90	VI 8A + 90 w/MA	V MA + 56	V MA + 24	
Prior Year ADA	69,986	661,702	59,035	127,339	61,224	52,637	
Teacher/Pupil Ratio	1:15.74	1:22.47	1:20.17	1:23.46	1:22.44	1:22.65	1:22.76

Source: Compiled from C.A.R.E. documents and State Controller's reports, these figures exclude fringe benefits.

If Not Salaries, Then What?

Relative to other school districts and the state average, San Francisco enjoys an extraordinarily favorable *pupil/teacher ratio*. As can be seen from Table V, Los Angeles had one teacher for every 22 students in 1974, and Oakland's ratio was 20:1. Long Beach, Sacramento, and San Diego all had pupil/teacher ratios of 22:1, and the state average in 1974 was 23:1. By contrast, San Francisco had one teacher for every 16 pupils. This set of figures, more than any others, explains the high cost of financing schools in San Francisco.* Further, the average class size in San Francisco is 25:1, indicating that a number of teachers are not assigned to the classroom.

---

*This disparity is reduced somewhat when both teacher and administrator salaries are annualized.

The *pupil/administrator ratio* shows San Francisco with similarly favorable figures. For example, there were 220 pupils per administrator in San Francisco during the 1974-75 budget year, whereas the state average was 319:1. In Oakland and Los Angeles, the ratios were 259:1 and 294:1, respectively, as shown in Table VI.

TABLE VI.

Interdistrict Personnel Comparisons, 1974

School District	Pupil/Teacher Ratio	Pupil/Pupil Service Personnel Ratio	Pupil/ Administration Ratio	Pupil/ Classified Employee Ratio
San Francisco	16:1	176:1	220:1	39:1
Los Angeles	22:1	384:1	294:1	32:1
Oakland	20:1	205:1	259:1	28:1
State Average	23:1	339:1	319:1	36:1

Source: "Ratios of California Public School Non-teaching Employees to Classroom Teachers," as of November 1, 1972, 1973, and 1974, prepared by the California State Department of Education, 1975.

TABLE VII.

SFUSD Personnel Duties

Year	Fiscal Year ADA	Teachers (Number/Ratio)	Pupil Service Personnel (Number/Ratio)	Administrative Personnel (Number/Ratio)	Classified Employees (Number/Ratio)	Total Employees (Number/Ratio)
1972	76.971	4544 (16.9/1)	213.5 (360.5/1)	330 (233.2/1)	1894 (40.6/1)	6981.5 (10.98/1)
1973	75.893	4613 (16.5/1)	219.5 (345.8/1)	340 (223.2/1)	1993.2 (38.1/1)	7165.7 (10.59/1)
1974	69.986	4448 (15.7/1)	397 (176.3/1)	319 (219.4/1)	1880 (38.9/1)	6964 (10.05/1)
1975*	70.204	4370 (16.1/1)	274 (256.2/1)	320 (219.5/1)	1823.2 (38.5/1)	6786 (10.35/1)

**All figures obtained from State Education Department, Bureau of Appointment records except for 1975, which are SFUSD budget figures.*

---

*If the pupil/teacher ratio had been the same as the state average, the District would have needed approximately 1,400 fewer certificated employees—an estimated cost savings of $25.2 million in salaries and fringe benefits. (Computed as 1,400 x $18,000, with $15,000 as average salary, plus 20% fringe benefits.) If the ratio had been the same as Oakland, the annual savings would have been approximately $17.1 million.

To a great extent, *student enrollment* determines the amount of revenues coming to school districts, and it can be expected that the number of employees would vary with enrollment. In San Francisco, however, the number of employees has not declined at a rate commensurate with the decline in student enrollment. As Table VII shows, the District's pupil population declined by 8.8% between 1972 and 1975. The total number of employees, however, decreased by only 2.8%. In all, there were 10.98 pupils per employee in 1972; in 1975, this ratio had actually dropped to the point where there were 10.35 pupils per employee. Thus, the proportion of employees to pupils has grown between 1972 and 1975.

The Impact of Categorical Funds

Is it possible that San Francisco's low ratio of employees to students can be attributed to the so-called *"categorical" funds* that come to the District from state and federal sources? Specifically, do these funds support a disproportionate number of teachers in San Francisco as compared to other districts, thus explaining the low pupil/teacher ratio? A comparison of the amount of categorical funds coming to San Francisco, Oakland, and Los Angeles in 1974 is shown in Table VIII, and the numbers of certificated employees supported by these funds in 1975 are shown in Table IX.

TABLE VIII.

Comparison of Categorical Funds for SFUSD, OUSD, LAUSD, 1973-74*

Funds	SFUSD		OUSD		LAUSD	
	Dollars (Millions)	Percent of Budget	Dollars (Millions)	Percent of Budget	Dollars (Millions)	Percent of Budget
Federal**	$8.5	6.2%	$8.4	11.5%	$46.8	6.1%
State***	6.2	4.6	5.0	5.8	31.1	4.0
TOTAL	14.7	10.8%	13.4	17.3%	77.9	10.1%

**Federal fund data obtained from Annual Report of Comptroller: 1. Financial Transactions Concerning School Districts, 1975. State fund data obtained directly from State Education Department records in Sacramento.*

***Federal funds include all federal general fund receipts except for those appropriated under Public Laws 815 and 874.*

****State funds include Bilingual Act, Miller Unruh, EDY, and ECE appropriations.*

TABLE IX

Comparison of Certificated Employees
Supported by Categorical Funds in SFUSD, OUSD, and LAUSD, 1975*

School District	Percent of Certificated Empl.
San Francisco	11%
Oakland	5.5
Los Angeles	13

**Data obtained in phone conversations with personnel officials in districts involved.*

Table VIII shows that 10.8% of San Francisco's budget was supported by categorical funds in 1974. Assuming approximately the same proportion in 1975, 11% of all certificated employees are paid from these funds. Because the proportions are almost identical, one can conclude that a disproportionate number of teachers are not supported by categorical funds. The comparative percentages in Los Angeles are nearly the same. On the other hand, Oakland has chosen to deploy its categorical funds to a greater degree for classified staff, i.e., teacher aides. The conclusions to be drawn from this analysis are as follows:

1. San Francisco does not receive a disproportionate amount of federal and state funding;
2. A disproportionate number of certified teachers are not supported by these funds; and
3. School districts have a choice as to whether to use these funds for certificated or for other support personnel.

COSTS AND EFFECTS

The rich mixture of employees to pupils, regardless of personnel assignment, results in high expenditures. These expenditures would appear justified, however, if pupil performance throughout the School District were average or better than average. Evidence based on state achievement tests, however, suggests that San Francisco's schools are performing in something less than a satisfactory manner.

School Achievement Compared

Table X compares reading scores in grades 2, 3, 6, and 12 for San Francisco, Oakland, and Los Angeles. Table X-A does the same for mathematics achievement. These displays rely upon the results of statewide achievement tests. The numbers represent a school district's percentile ranking on the test score for each grade level.

Although San Francisco's achievement test results are uneven, two principal conclusions can be drawn. First, SFUSD student performance in reading never reaches the level of the average district in the state. Second, in both reading and mathematics, San Francisco's average student performance has declined over the past five years (1971 to 1975).

When compared to other districts, San Francisco performs substantially better than does Oakland, but, except for the second and third grades in 1975, not as well as Los Angeles. In fact, the long range pattern between 1971 and 1975 reveals San Francisco outdistancing Los Angeles only twice out of a total of 20 reading score comparisons. In San Francisco's behalf, this pattern does not appear in mathematics. In fact, the 12th grade mathematics for San Francisco has consistently out-performed Los Angeles.

These performance levels must be considered in relation to San Francisco's financial outlays. Los Angeles' school expenditures rather consistently rest near the state average. In 1973-74, they were at the 66th percentile in the state, and fell to the 55th percentile level in 1974-75. (This pattern is due in large part to the dominant size of the LAUSD within the state.) During this time, San Francisco's per pupil expenditures were at the 97th percentile or higher. San Francisco's public school students do not perform on statewide achievement tests at a level in keeping with the expenditure of available resources.*

TABLE X

Reading Test Score Comparisons: San Francisco, Oakland, Los Angeles
1970-71 to 1974-75 (Percentile Rankings)

Grade Level	1971			1972			1973			1974			1975		
	SFUSD	OUSD	LAUSD	SFUSD	OUSD	LAUSD	SFUSD	OUSD	LAUSD	SFUSD	OUSD	LAUSD	SFUSD	OUSD	LAUSD
Second Grade	28	42	31	22	42	30	20	29	29	22	25	24	26	20	20
Third Grade	21	28	29	10	28	24	13	20	24	19	18	20	22	14	16
Sixth Grade	27	25	32	18	19	24	19	19	22	13	12	22	12	12	19
Twelfth Grade	32	4	38	22	3	27	15	5	31	20	6	29	18	6	27

TABLE X-A.

Mathematics Test Score Comparison

Grade Level	1971			1972			1973			1974			1975		
	SFUSD	OUSD	LAUSD	SFUSD	OUSD	LAUSD	SFUSD	OUSD	LAUSD	SFUSD	OUSD	LAUSD	SFUSD	OUSD	LAUSD
Sixth Grade	38	29	37	29	21	32	28	24	29	20	16	27	25	21	20
Twelfth Grade	66	9	35	54	12	31	31	10	28	38	15	27	55	18	38

CONCLUSIONS

The foregoing analysis has shown that San Francisco's high cost for education is largely due to comparatively high expenditures for personnel. The School District's past revenue situation has permitted the maintenance of these costs, even though they suggest personnel inefficiency. With continued declines in student enrollment and anticipated state school finance reform resulting from the *Serrano* decision, San Francisco can no longer afford the luxury of such high personnel costs.

---

*Nor do socio-economic or demographic factors appear to account for San Francisco's lower achievement levels. For example, 39.2 percent of San Francisco's students are classified by the state as bilingual. The comparable figure in Los Angeles is 32.1; lower, but not sufficient to explain pupil performance difference. The same can be said for pupil ability and socio-economic rating.

Since these costs account for more that 85% of San Francisco's budget, and since staff salaries are not out of line with comparable districts, efforts to economize must concentrate on reducing numbers of staff. With the School District's low ratio of students to employees, it should be possible to make careful reductions in staff with minimal negative impact on the classroom program.

The immediate solution to the District's fiscal crisis will require reductions through staff layoffs. If layoffs are made solely on the basis of seniority, however, the District's educational and affirmative action programs are likely to suffer.

If the District seeks additional revenues through local taxes, it may be possible to avoid layoffs for the present. Such actions, however, will only delay the need to bring personnel costs in line with budget constraints. Ultimately, the District must face the fact that the cost of education in San Francisco cannot continue to grow. Part 4 of the Commission's series of reports on the Fiscal Future of the School District examines alternatives for reducing future expenditures.

#8 Pt. 4
c. 3

FISCAL FUTURE
PART 4

ALTERNATIVES FOR REDUCING EXPENDITURES

SAN FRANCISCO
PUBLIC SCHOOLS COMMISSION
REPORT AND RECOMMENDATIONS

SEP 8 1978

DOCUMENTS DEPT.
S.F. PUBLIC LIBRARY

The San Francisco Public Schools Commission was formed in January 1975 as a cooperative effort by the Board of Education of the San Francisco Unified School District and the State Superintendent of Public Instruction. The general objectives of the Commission are to identify problems in the School District and to assist in implementing agreed-upon solutions. The Commission is supported through grants from the San Francisco Foundation, the Ford Foundation, the Irwin Foundation, the Gerbode Foundation, and the San Francisco Unified School District.

COMMISSION MEMBERS:

Mrs. Bernice Brown
Mr. Lewis H. Butler
Mrs. Ruth Chance
Mrs. Caroline Charles
Mr. John Crowley
Dr. Roberta Fenlon
Mr. R. Gwin Follis
Mr. James Frankel
Mr. Herman Gallegos
Mr. Louis Garcia
Mr. James R. Herman
Ms. Aileen C. Hernandez
Dr. Asa Hilliard
Mr. Jerome Hull
Mr. Fritz Jewett
Mr. Robert Kirkwood
Rev. Donald Kuhn
The Hon. Harry Low
Mrs. Leslie Luttgens
Mr. Thomas J. Mellon, Jr.
Mr. Einar Mohn
Father Antonio Rey
Mr. William M. Roth (Chairman)
Mr. Yori Wada

Dr. Luvern L. Cunningham, Executive Director

REPORT
AND
RECOMMENDATIONS

THE FISCAL FUTURE OF SAN FRANCISCO'S PUBLIC SCHOOLS
PART 4:
ALTERNATIVES FOR REDUCING EXPENDITURES

THE SAN FRANCISCO
PUBLIC SCHOOLS COMMISSION
April 21, 1976

This Report is based on a consultant's paper
prepared for the Commission by:
James W. Guthrie

Primary staff for this project:
Diana K. Thomason

SAN FRANCISCO PUBLIC SCHOOLS COMMISSION
785 MARKET STREET, ROOM 902, SAN FRANCISCO 94103
TELEPHONE (415) 495-0870

MR. WILLIAM M. ROTH
Chairman

DR. LUVERN L. CUNNINGHAM
Executive Director

April 21, 1976

Dr. Lee S. Dolson
President, Board of Education
San Francisco Unified School District
135 Van Ness Avenue
San Francisco, California 94102

Dear Dr. Dolson:

This report concludes the Commission's four-part series on the Fiscal Future of San Francisco Public Schools. The earlier reports revealed that the School District faces decreasing revenues and must curtail expenditures to meet budget constraints. Further, the reason for San Francisco's high per pupil expenditures is primarily the result of large numbers of teachers and administrators employed by the District.

While the Commission's analysis points to staff layoffs as one of the immediate solutions to the District's fiscal crisis, this report explores a series of long-term options for future cost reductions. Further staff layoffs may be necessary to bring expenditures in line with revenues; however, careful exploration and implementation of these alternatives may lessen the need for such actions in the future.

Through this series of reports, the Commission urges the School District to begin a long-range approach to budget planning. The need for cost reductions must be anticipated far enough in advance to avoid the crisis atmosphere that inevitably ensues with mass terminations and program cuts. Thoughtful approaches to alternative strategies could protect the minority and younger employees from being lost to the District through the process of seniority-based layoffs.

Sincerely,

William Roth

William M. Roth
Chairman

TABLE OF CONTENTS

Page

INTRODUCTION 1

ALTERNATIVES FOR PERSONNEL COST REDUCTIONS 2

1. Natural Attrition — Certificated 2
2. Natural Attrition — Classified 2
3. Early Retirement 2
4. Job Sharing 3
5. Salary Reductions 3
6. Layoffs — Certificated 4
7. Layoffs — Classified 4
8. Reduce Administrative Costs 5

Additional Factors 5

OTHER COST REDUCTIONS 6

CONCLUSIONS 7

INTRODUCTION

The San Francisco Unified School District faces the difficult task of drastically reducing its expenditures. Part 1 of the Commission's series of reports on the Fiscal Future of San Francisco's Public School's, "Revenues and Expenditures", projected a potential shortage of funds of between $12 and $15 million in 1976-77. Further, if current revenue and expenditure patterns persist, this shortfall would subsequently grow such that by 1980 the School District would show as much as a $31 million deficit.

By law, however, California school districts must balance their budgets; long-run deficit spending is not permitted. San Francisco must therefore either reduce expenditures, increase revenues, or both. Part 2, "State School Finance Reform", discusses revenue strategies, showing that prospects for additional financing are dim. The District must therefore develop plans for reducing expenditures.

Part 3 of the Commission's series, "Expenditure Patterns", examined San Francisco's spending in comparison with other large school districts in the State, and affirmed that SFUSD expenditures per pupil are high. The principal explanation for its high level of spending is that San Francisco employs more teachers and administrators per pupil than do comparable California school districts.

Since personnel costs account for more than 85% of the School District's budget, efforts to economize must concentrate on reducing staff costs. Such reductions could be accomplished by either lowering salaries or by reducing the work force. Staff salaries are not out of line with those paid in comparable districts; however, San Francisco employs a greater number of employees per pupil than comparable districts. It should be possible, therefore, to make careful reductions in staff with minimal negative impact on the classroom program.

The immediate solution to the District's fiscal crisis will require reductions through staff layoffs. If layoffs are made solely on the basis of seniority, however, the District's educational and affirmative action programs will suffer. If additional revenues through local taxes are sought, it may be possible to avoid layoffs for the present. Such actions, however, will only delay the need to bring personnel costs in line with budgetary constraints. Ultimately, the District must face the fact that the cost of education in San Francisco cannot continue to grow.

Planning must begin now to reduce staff in line with programmatic goals. This report presents a series of long-range alternatives for reducing future expenditures. By implementing an effective mix of these cost saving strategies, the School District should be able to bring expenditures in line with anticipated revenues.

ALTERNATIVES FOR PERSONNEL COST REDUCTIONS

1. **Natural Attrition — Certificated**

   Since 1972, the number of SFUSD credentialed employees has declined an average of 100 persons per year simply by natural attrition, e.g., retirements and resignations. If one assumes a continuing rate of attrition, with no replacements, annual *cost savings in salaries and fringe benefits would approximate $1.8 million.*

2. **Natural Attrition — Classified**

   The SFUSD pupil/classified employees ratios are comparable to other large districts and the State average. Consequently, this is not a budget area in which to expect dramatic reductions. While natural attrition in this area has been uneven, making it difficult to project an expected attrition rate for the coming year, one can assume an attrition rate of 2 percent. At this rate, *annual cost savings in salaries and fringe benefits would approximate $420,000.*

It is possible, particularly by offering incentives, to encourage voluntary attrition. The two major avenues through which this can occur are "early retirement" and "job sharing".

3. **Early Retirement**

   For certificated employees who have accrued thirty or more years of service, but have not yet reached mandatory retirement age, the SFUSD offers an early retirement plan. In addition to teacher retirement benefits, such individuals receive a $4,000 honorarium in exchange for 40 days of consulting. In the first year of operation, approximately 23 individuals took advantage of the plan.* Assuming, conservatively, a net savings of $16,000 per person, *the total saving to the district was $368,000.*

   At least two factors discourage individuals with long years of service from applying for early retirement: rates of inflation and loss of fringe benefits. To make this option more attractive, the school district could offer to pay a portion of the early retirees' fringe benefits, until age 65. With such added inducement, the school district could aim for 50 early retirements each year. Even if full fringe benefits were included in the package, *annual costs savings would approximate $550,000 per year.* These savings will be cumulative through future budget years until the normal retirement (age 65) is reached.

---

*The actuarial soundness of the present retirement system and its financial implications for the School District are crucial considerations. The obligations for both the State, City, and District with respect to early retirement strategies need further study.

4. **Job Sharing**

For individuals who, for a variety of reasons, desire both professional employment and a specified amount of free time, the concept of job sharing is attractive. The district can encourage such behavior by offering full fringe benefits in addition to the part-time salary the individual would otherwise earn. The advantage to the school district is the saving of one salary, minus fringe benefit costs, for every two postions collapsed. Experiments in other Bay Area districts have been quite satisfactory to both the district and individual teachers involved.* If the SFUSD attempted to induce 20 persons per year to share 10 jobs, *net savings to the district would approximate $120,000 annually.* As is the case with early retirement, if the goal were achieved repeatedly over several years, there is the prospect of such savings being cumulative.

5. **Salary Reductions**

Another manner in which cost savings can be achieved is to reduce employee salaries.** In San Francisco this option is available to the School Board only for certificated employees. Classified salaries are established by the City's Civil Service Commission.

Assuming, conservatively, that the average certificated employee (all categories: teachers, pupil service personnel, and administrators) is paid $17,000 and that the SFUSD employs approximately 4,200 certificated employees, total salary costs would be $71.4 million. For each percent that salaries were reduced, there would be a corresponding costs saving of $714,000. *A 5 percent certificated salary reduction would amount to $3.57 million per year.*

A salary reduction for San Francisco's certificated school employees should be approached with greatest caution. In addition to the generally demoralizing impact of such reductions, they would occur following a period of rapid inflation. Teachers in San Francisco

---

*For added information on this concept and the experiences of nine Bay Area districts, see: *Job Sharing in the Schools* (Palo Alto: New Ways to Work), February, 1976.

**Should the School Board decide to reduce salaries as a cost saving tactic, the last legal date by which this action can be taken is July 1.

already have experienced a decrease in terms of purchasing power. Also, Part 3 noted that San Francisco's teacher salary schedule is not high as compared to other large cities.

6. **Layoffs — Certificated**

California law permits school districts to lay off certificated employees either (1) in proportion to enrollment decline, or (2) in keeping with the reduction or elimination of various non-mandated school programs. Layoffs proportional to enrollment decline must take employee attrition into account. Consequently, San Francisco may have little, if any, layoff flexibility. Under the program reduction criteria, however, a large number of certificated staff could be terminated. If $17,000 is taken as the average of salaries and fringe benefits for junior employees, there would be a *$1.7 million saving for each 100 individuals terminated.*

The Education Code specifies that such layoffs be made in inverse order of employment, i.e., "last hired, first fired". It is the teachers from the various ethnic minorities who, in general, have been last hired. Therefore, terminations according to seniority would seriously damage affirmative action progress. *Legal and/or legislative relief should be sought that will permit the District to consider criteria for terminations in addition to seniority.**

7. **Layoffs — Certificated**

Classified employee layoffs are not constrained by law in the same manner as certificated employees. Classified personnel reductions may be made at the discretion of the District, although seniority is again the criterion. In San Francisco, however, classified employees enjoy a greater degree of job security since they are also a part of the City's Civil Service system. As such, they are able to transfer to other City departments if positions in the District are terminated.**

Considering only general fund positions with average salary and fringe benefits totaling $14,500 per classified employee, a reduction proportionate to enrollment decline would *save the District approximately $843,000 in the first year.*

---

*It should be noted that collective bargaining agreements will also include termination procedures.

**The relationship between the City and County of San Francisco and the School District in this and other areas is being examined by the Commission and will be discussed in a forthcoming report.

8. Reducing Administrative Costs

San Francisco's administrative costs are disproportionately high; consequently, this area should be a prime target for cost reductions. Even assuming local conditions which necessitate an administrative overhead somewhat higher than the state average, substantial cost savings are still possible.

As discussed in Part 3, San Francisco spent $66.51 per pupil in 1973-74 to operate its central administrative office. Oakland, though above state average, spent only $41.89 in the same year. If San Francisco could reduce its spending to the level of Oakland, *it could save $1.7 million.*

Lowering administrative costs will require that the Superintendent reduce the number of administrative positions. These reductions should be made at the central office rather than at the school sites, since the District's movement toward site management will increase administrative responsibilities at the school level. Another possibility is to employ classified personnel rather than more expensive certificated personnel in positions where certification is neither required nor justified.

Additional Factors

In considering these options for reducing personnel costs, several additional factors are worthy of note.

1) **Hiring Freeze.** In order for any approach to be effective as a cost saving device, the school district must continue to restrict additional hiring. A hiring freeze, however, poses several difficulties. First, teachers do not always resign or retire in a fashion which is "rational" for the School District. On occasion, the "last chemistry teacher" will retire and must be replaced. Also, if seniority continues to be the criterion for layoffs, affirmative action gains will be eroded.

b) **Retraining Costs.** One way to compensate for the loss of the "last chemistry teacher" is to institute a retraining program. Such a program enables staff who have had appropriate background, but whose skills are somewhat outdated or unused, to prepare themselves for alternative or newly productive purposes. It seems equitable that the school district should assume some portion of these costs.

c) **Leaves of Absence.** San Francisco must be careful to take into account the substantial number of teachers who have leaves of absence. Under most conditions, these persons have a draw upon the District for jobs. As of the November 1975 Position Control Report, there were 463 such individuals.

OTHER COST REDUCTIONS

Compared with other California school districts, SFUSD expenditures are proportionately higher in most budget categories. While cost reductions in budget areas other than personnel are possible, such savings alone could not meet the anticipated budget deficit. As personnel costs represent the largest portion of the school dollar, the Commission's analysis has therefore focused most heavily on personnel cost reductions. Savings in other areas are nevertheless possible, and to the extent that such reductions are made, the pressure to reduce staff will lessen.

For example, **closing small schools** is an available option because of declining enrollments. Consolidating schools with small enrollments would save on utilities, custodial and clerical salaries, and transportation. (Sale of surplus school property should also be considered as a means to increase revenues for other capital projects.) However, unless the schools involved are extraordinarily small, the educational disadvantages may outweigh cost savings. Other things being equal, many educators and parents believe that students are more likely to learn in a small school than in a large one.

Across-the-board percentage cutback in many budget categories could also be made. For example, if budget allocations for ''consumables'' (supplies and materials, as well as textbooks) were reduced proportionate to enrollment decline, *the projected savings would be approximately $200,000 the first year.* Other categories, such as equipment and furniture, library books, utilities, or maintenance could be reduced, but not necessarily in proportion to enrollment decreases; as long as a building is in use, costs for lighting, heating, and maintenance will continue regardless of enrollment shifts.

CONCLUSIONS

This report outlines a series of alternatives for reducing school district expenditures. Most of the options involve reductions in personnel costs, since most of the school dollar is committed to salaries — both certificated and classified. While short-run measures for meeting the current budget deficit will require lay-offs, this report suggests ways in which future personnel cost savings can be affected without precipitous and unplanned reductions.

The Commission urges the District to begin a long-range approach to budget planning, anticipating the need for staff reductions far enough in advance to avoid the crisis atmosphere that inevitibly ensues with mass terminations. Specifically, we urge consideration of options to induce attrition through plans such as early retirement and job sharing. Thoughtful approaches in these areas will protect the minority and the younger employees from being lost to the District through the process of seniority-based layoffs.